

1. EXECUTIVE SUMMARY

Section 16(1) of the MFMA states that the municipal council must for each financial year, approve an annual budget for the municipality before the start of the financial year. Section 16(2) states that in order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year. Immediately after the tabling of draft budget, the accounting officer must make the approved draft budget to local communities and other relevant stakeholder for comments and representations.

Section 24 of the MFMA states that 30 days before the start of the financial year, the Council must then approve the annual budget, having considered the comments and suggestions of local communities, relevant stakeholders as well as Provincial and National Treasuries, failing which, the Council is required by section 25 of MFMA to convene meetings within every seven days until the budget is approved. Should Council fail to approve its annual budget before the commencement of the financial year, the mayor is required to submit reasons in terms of section 55 of MFMA. In terms of section 139(4) of the Constitution, the Provincial Executive of the relevant province may intervene where Council has failed to approve its annual budget prior to commencement of the financial year.

RECOMMENDATIONS

- (a) That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2017/18; and indicative allocations for the two projected outer years 2018/19 and 2019/20; and the multi-year and single year capital appropriations be approved;
- (a) That the sources to fund both operating and capital budgets be noted and approved;
- (b) That the Municipality's annual allocation of R66 793 006 to uThukela Water for the provision of bulk water be approved;
- (c) That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out Tariff of Charges that were used to prepare the estimates of revenue by source, be approved with effect from 1 July 2017 for all services except for water and electricity consumption, which be levied on the new tariff with effect from 01 August 2017;

- (d) That the Tariff of Charges be approved as attached in Annexure E and be applicable with effect from 01 July 2017;
- (e) That the revenue collection and debt management strategies be enhanced to improve the revenue collection rates
- (f) That Property Rates, Water, Refuse and Sanitations tariffs be increased by 7% and other tariffs be increased by 10%.
- (g) That NERSA proposed municipal Electricity Tariff guideline increase of 1.88% increase be hereby approved, it be recorded that the application supporting this tariff increase is currently being processed by NERSA.
- (h) That bulk electricity purchases be increased by 0.31% as per NERSA and the National Treasury guidelines.
- (i) That a water surcharge of 30% on water tariffs be repealed as there are no longer draught challenges in Newcastle;
- (j) That in terms of the Indigent Policy, the monthly household earnings of an indigent application be capped at R3 500 per month.
- (k) That indigent benefits be capped and approved as follows:
 - Electricity consumption : 50 kW/h
 - Water consumption : 6 KI
 - Electricity availability : 100%
 - Water availability : 100%
 - Sewer : 100%
 - Refuse : 100%
 - Property rates : 100%
- (l) That the rate rebates be capped and approved as follows:
 - Pensioners : 25%
 - Flood victims : 25%
 - Bread and breakfasts businesses : 10%
 - Business development with Property greater than R50 million:

from 0-4 years	: 40%
from 5-6 years	: 25%
from 7-8 years	: 10%
from 9 years onwards	: 0%

- (m) That the Budget Policy be noted and approved;
- (n) That the Tariff Policy be noted and approved as attached Annexure F;
- (o) That the Rates Policy be noted and approved as attached Annexure F;
- (p) That the Indigent Policy be noted and approved as attached in Annexure F;
- (q) That the Customer Care, Credit Control and Debt Collection Policy be noted and approved as attached in Annexure F;
- (r) That the Provision for Doubtful Debt and Debtors Write-Off Policy be noted and approved as attached in Annexure F;
- (s) That the Supply Chain Management Policy be noted and approved as attached in Annexure F;
- (t) That the Cash and Investment Management Policy be noted and approved as attached in Annexure F;
- (u) That the Asset Management Policy be noted and approved as attached in Annexure F;
- (v) That the Petty Cash Policy be noted and approved as attached in Annexure F;
- (w) That the Virement Policy be noted and approved as attached in Annexure F;
- (x) That the Funding and Reserves Policy be noted and approved as attached in Annexure F;
- (y) That the Borrowing Policy be noted and approved as attached in Annexure F;
- (z) That the Loss control Policy be noted and approved as attached in Annexure F;
- (aa) That the Short-term Insurance Policy be noted and approved as attached in Annexure F;

- (bb) That the Provincial Treasury's assessment and management responses on the municipality's 2016/17 adjustments be noted. It further be noted that such assessment was received after the draft budget was approved. Annexure G
- (cc) That a letter of objection received from uThukela Water regarding their allocation for 2017/18 be noted. Annexure H
- (dd) That the Provincial Treasury's final assessment letter on the 2017/18 draft budget be noted.

2. BUDGET REPORT

The high level summary of the draft operating and capital budgets are contained in Annexure A and Annexure B respectively. A detailed narrative of the budget is contained in the budget report and. The budget format (A Schedule) presented in compliance with the Municipal Budget Format and Reporting Regulations is contained in Schedule A tables.

4. FINANCIAL IMPLICATIONS

4.1. OPERATIONAL BUDGET

The total estimated operational revenue for the 2017/18 financial year is R1.742 billion while total estimated operational expenditure is R1.824 billion yielding to a deficit of R81.7 million. The analysis of cash items indicates a cash surplus budget, which means that the operating expenditure is funded.

4.2. CAPITAL BUDGET

The proposed capital budget is projected at R253.7 million to be funded as follows.

- Grants : R 229.8 million
- Internal Reserves : R 23.9 million

The list of capital projects to be implemented in each ward and per IDP priorities is contained in the Annexure B.

5. BUDGET DOCUMENTS

The related budget documents are attached as follows:

High Level Operating Budget	: Annexure A
Capital Budget per project	: Annexure B
Annual Budget Report	: Annexure C
A1 Budget Schedules	: Annexure D

Tariffs of Charges	: Annexure E
Budget Related Policies	: Annexure F
Provincial Treasury assessment	: Annexure G
uThukela Water letter	: Annexure H

Report seen by:



SM NKOSI
ACTING STRATEGIC EXECUTIVE DIRECTOR
BUDGET AND TREASURY OFFICE

EM NKOSI
PORTFOLIO COUNCILLOR
BUDGET AND TREASURY OFFICE

BE MSWANE
MUNICIPAL MANAGER



ANNEXURE A

HIGHLEVEL OPERATING BUDGET

CONSOLIDATED HIGH LEVEL OPERATIONAL FINAL BUDGET 2017/18

STD CLASSIFICATION	ACTUAL 2015/2016	ORIGINAL BUDGET	ADJUSTED BUDGET	2016/17	2017/18	FINAL BUDGET	2018/19	BUDGET 2018/19
OPERATIONAL REVENUE								
FINES	(5,205,647.05)	(7,660,160.00)	(5,203,136.97)	(5,203,136.97)	(5,556,429.97)	(5,933,711.57)	(5,246,913.28)	(5,246,913.28)
INTEREST : EXTERNAL INVESTMENTS	(12,288,929.31)	(8,730,000.00)	(4,000,781.95)	(4,600,899.14)	(4,913,300.20)	(4,913,300.20)	(14,338,391.93)	(14,338,391.93)
INTEREST ON OUTSTANDING DEBTORS	(7,155,898.37)	(6,099,000.00)	(11,750,477.00)	(12,573,010.39)	(13,426,717.80)	(13,426,717.80)	(13,924.41)	(13,924.41)
LICENCES	(9,832,86)	(12,210,00)	(12,210,00)	(12,210,00)	(13,039,06)	(13,039,06)	(13,925,551.34)	(13,925,551.34)
OTHER REVENUE	59,833,300.29	(14,342,223.00)	(16,123,024.83)	(17,735,326.83)	(18,939,555.52)	(18,939,555.52)	(20,225,551.34)	(20,225,551.34)
PROPERTY RATES	(240,360,817.52)	(256,072,025.00)	(262,900,815.00)	(283,210,266.32)	(302,440,243.40)	(322,975,935.93)	(322,975,935.93)	(322,975,935.93)
RENTAL	(7,901,816.62)	(7,326,269.00)	(7,326,269.00)	(8,058,895.90)	(8,606,094.93)	(9,190,448.78)	(9,190,448.78)	(9,190,448.78)
SERVICE: ELECTRICITY	(640,864,510.50)	(712,968,486.00)	(689,824,305.00)	(693,619,675.00)	(740,716,450.93)	(791,011,097.95)	(791,011,097.95)	(791,011,097.95)
SERVICE: REFUSE	(77,509,441.37)	(83,421,009.00)	(83,421,009.00)	(89,260,479.63)	(95,321,266.20)	(101,793,580.17)	(101,793,580.17)	(101,793,580.17)
SERVICE: SEWERAGE	(95,236,587.92)	(102,872,985.00)	(102,872,985.00)	(110,074,093.95)	(117,548,124.93)	(125,529,642.61)	(125,529,642.61)	(125,529,642.61)
SERVICE: WATER	(164,462,424.68)	(184,731,705.00)	(161,470,136.22)	(172,773,045.00)	(184,504,334.76)	(197,032,179.09)	(197,032,179.09)	(197,032,179.09)
TRANSFERS RECOGNISED	(467,501,530.04)	(325,438,029.00)	(331,488,029.00)	(345,790,000.00)	(359,269,141.00)	(394,342,515.68)	(394,342,515.68)	(394,342,515.68)
Grand Total	(1,658,604,135.95)	(1,709,674,101.00)	(1,676,393,178.97)	(1,742,911,039.13)	(1,881,254,698.69)	(1,987,633,892.73)		
OPERATIONAL EXPENDITURE								
BULK PURCHASES	513,478,161.59	509,749,350.00	553,162,185.00	579,385,012.76	618,725,255.13	660,736,699.95		
COLLECTION FEES	19,792,327.40	19,186,000.00	8,550,000.00	5,700,000.00	6,087,030.00	6,500,339.34		
CONTRACTED SERVICES	78,778,050.06	116,287,144.00	38,832,181.67	22,202,732.00	23,710,297.50	25,320,226.70		
COUNCILLORS REMUNERATION	18,453,107.40	21,022,584.00	21,054,796.00	23,219,285.30	24,795,875.84	26,479,515.81		
DEBT IMPAIRMENT	230,354,559.64	61,006,705.00	88,255,601.20	101,807,371.00	108,720,091.49	116,102,185.71		
DEPARTMENTAL CHARGES	1,269,442.58	5,015,949.00	7,285,623.00	12,800,000.00	13,669,120.00	14,597,253.25		
DEPRECIATION	445,556,951.17	330,120,627.00	369,587,414.54	247,894,714.00	264,726,765.08	282,701,712.43		
EMPLOYEE RELATED COSTS	484,418,664.02	476,620,396.00	470,815,213.00	514,737,497.56	549,688,173.65	587,012,000.64		
FINANCE CHARGES	53,538,281.73	61,899,159.00	50,312,158.00	47,135,449.56	43,753,911.52	41,333,080.25		
MATERIAL	2,438,183.98	3,061,242.00	3,542,985.90	3,912,715.00	4,178,388.35	4,462,100.92		
OTHER EXPENDITURE	159,915,095.73	172,064,356.00	181,734,867.36	128,096,652.48	136,794,415.18	146,082,755.97		
REPAIRS & MAINTENANCE	86,854,092.43	83,582,809.00	64,743,013.02	45,190,085.54	48,258,492.35	51,535,243.98		
TRANSFERS & GRANTS	90,763,639.00	96,098,483.00	100,963,706.42	92,545,410.00	98,829,243.34	105,539,748.96		
Grand Total	2,185,600,856.73	1,955,714,804.00	1,958,839,745.11	1,824,626,926.20	1,941,937,059.43	2,068,402,863.90		
SURPLUS/DEFICIT	526,996,720.78	246,040,703.00	282,446,566.15	81,715,887.07	80,682,360.74	80,768,971.17		



ANNEXURE B

CAPITAL BUDGET PER PROJECT

CAPITAL BUDGET: 2017/18, PRESENTED IN TERMS OF IDP PRIORITIES

KEY PERFORMANCE AREA	DIRECTORATE	PROJECT DESCRIPTION	WARD	WARD PRIORITY	STRATEGIC OBJECTIVES	WMA STRATEGY	FUNDING SOURCE/GRAANT NAME	Final Budget 2017/18	Draft Budget 2018/19	Draft Budget 2019/20
TECHNICAL SERVICES										
TECHNICAL SERVICES										
TECHNICAL SERVICES										
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	Mfss	19	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	2,632,500	3,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	Mds5	24	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	2,825,000	4,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	Mds9	26	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	1,175,000	1,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	ME11 (A)	28	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	4,815,000	-	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	ME11 (B)	28	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	2,935,000	2,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OE11	9	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	2,690,000	1,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OA45 (A)	8	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	4,367,500	-	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OA45 (B)	8	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	2,882,500	2,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OC70	10	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	2,365,000	2,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OA103	30	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	2,927,500	2,000,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	Mb7	22	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	8,500,000	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	Mds	24	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	3,000,000	-

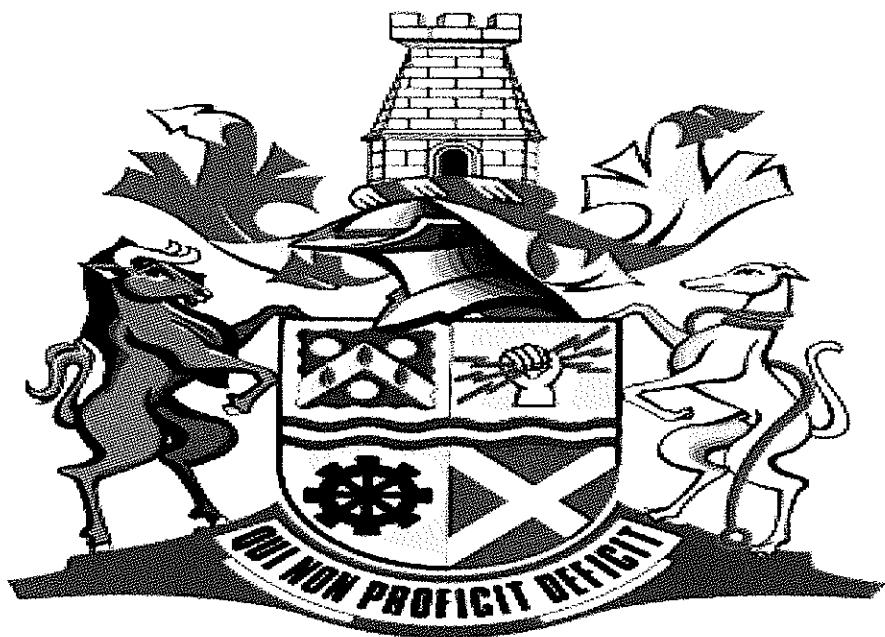
KEY PERFORMANCE AREA	DIRECTORATE	PROJECT DESCRIPTION	WARD	MAIN PRIORITY	STRATEGIC OBJECTIVES	HEM Strategy	FUNDING SOURCE/GRANT NAME	Final Budget 2017/18	Draft Budget 2019/20
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	MF 19 & MF19	29	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	4,000,000 3,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	MB23	22	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	8,568,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	MIG & MIG4	22	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	7,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OAS6	10	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	3,000,000 4,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	0813.6	18	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	1,398,000 5,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OC25, OC53	8	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	8,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	0017, 0321	10	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	6,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	WCDM MADADENI	22,24,23,39	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	6,500,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	MADADENI WWTP	31	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	20,000,000	20,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	UPGRADE OF NGAGANE WWTP PHASE1	21	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water traffic calming devices and provision of pedestrian side-walks.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	15,000,000	20,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	BASIC SANITATION SERVICES NORMANDIEN	21	Improved access to basic services (i.e. water, sanitation, electricity, housing, waste removal).	To improve sanitation systems	Increase number of households with access to basic sanitation.	MIG	700,000	700,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	BASIC SANITATION SERVICES INGOGO	1	Improved access to basic services (i.e. water, sanitation, electricity, housing, waste removal).	To improve sanitation systems	Increase number of households with access to basic sanitation.	MIG	700,000	700,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	BASIC SANITATION SERVICES CHARLESTOWN	1	Improved access to basic services (i.e. water, sanitation, electricity, housing, waste removal).	To improve sanitation systems	Increase number of households with access to basic sanitation.	MIG	700,000	700,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	BLAAUWIBOSCH BULK WATER PROJECT	21,19,16,18	Improved access to basic services (i.e. water, sanitation, electricity, housing, waste removal).	To ensure that the water and sanitation service is rendered in an efficient and affordable manner.	Increase number of households with access to basic potable (drinkable) water.	MIG	15,000,000	18,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	PIPE REPLACEMENT AND UPGRADE PROJECT	3	Improved quality of roads and storm water infrastructure.	To ensure that the water and sanitation service is rendered in an efficient and affordable manner.	Increase number of households with access to basic potable (drinkable) water.	MIG	7,489,000	20,000,000 25,000,000

KEY PERFORMANCE AREA	DIRECTORATE	PROJECT DESCRIPTION	WARD	WLM PRIORITY	STRATEGIC OBJECTIVES	WLM STRATEGY	FUNDING SOURCE/GRANT NAME	Final Budget 2017/18	Draft Budget 2018/19	Draft Budget 2019/20
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	OSIZWENI E AND F	11	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	9,000,000	-	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	INGAGANE BULK WATER SUPPLY PROJECT	21	Improved access to basic services (i.e. water, sanitation, electricity, housing, waste removal).	To ensure that the water and sanitation service is rendered in an efficient and affordable manner.	Increase number of households with access to basic potable (drinkable) water.	MIG	10,000,000	-	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	WCDM OSIZWENI	10,13,8,9,11,12,30,17,18,32	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	10,000,000	15,000,000	10,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	NEWCASTLE EAST WATER SUPPLY EXTENSION	31,6,33,32	Improved access to basic services (i.e. water, sanitation, electricity, housing, waste removal).	To ensure that the water and sanitation service is rendered in an efficient and affordable manner.	Increase number of households with access to basic potable (drinkable) water.	MIG	35,000,000	35,000,000	25,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	UPGRADE AND REFURBISHMENT OF PUMP STATIONS	4,5,23,24,3	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	MIG	-	-	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	SIYAHALALA ELECTRIFICATION	25	Improved access to basic services (i.e. water, sanitation, electricity, housing, waste removal).	To ensure access to electricity and other forms of energy where applicable.	To provide electricity within the Newcastle Municipality Licensed Areas.	National Electrification (Mun)	9,000,000	10,000,000	20,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	RESEALING OF ROADS - NEWCASTLE WEST	5,4,3,2	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	INTERNAL FUNDS	6,000,000	14,000,000	16,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	RESEALING OF ROADS - MADADENI	22,24,23,19	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	INTERNAL FUNDS	2,000,000	6,000,000	8,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	RESEALING OF ROADS - OSIZWENI	10,8,9,11,12,30,17,18	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	INTERNAL FUNDS	2,000,000	8,000,000	8,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	RESEALING OF ROADS - KILBARCHAN	21	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	INTERNAL FUNDS	1,000,000	4,000,000	4,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	RESEALING OF ROADS - CHARLESTOWN	1	Improved quality of roads and storm water infrastructure.	To ensure the provision and maintenance of safe roads and effective storm-water infrastructure.	Refurbishment and maintenance of roads, storm-water infrastructure, traffic calming devices and provision of pedestrian side-walks.	INTERNAL FUNDS	1,000,000	4,000,000	4,000,000
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	STORMWATER MANAGEMENT (NN,MAD and OSIZ)	municipal wide	Improved quality of roads and storm water infrastructure.	To ensure that the water and sanitation service is rendered in an efficient and affordable manner.	Increase number of households with access to basic potable (drinkable) water.	INTERNAL FUNDS	2,374,000	-	-
BASIC SERVICE DELIVERY AND INFRASTRUCTURE.	TECHNICAL SERVICES	PANORAMA STORMWATER	3	Improved quality of roads and storm water infrastructure.	To ensure that the water and sanitation service is rendered in an efficient and affordable manner.	INTERNAL FUNDS	-	-	-	-

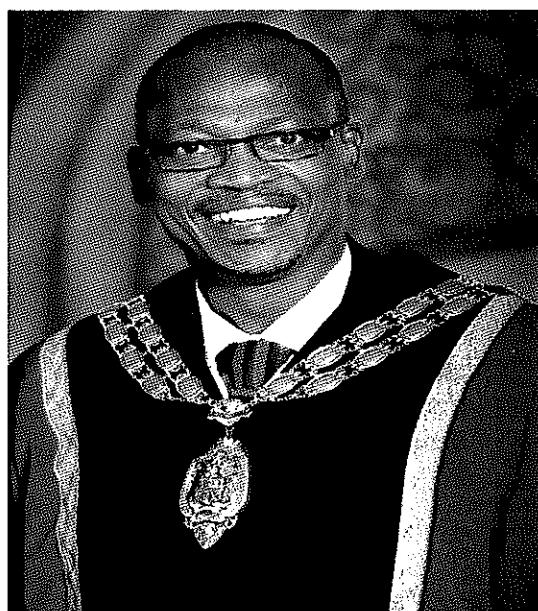


ANNEXURE C

ANNUAL BUDGET REPORT



NEWCASTLE MUNICIPALITY



FINAL MEDIUM TERM BUDGET 2017/18 TO 2019/20

“NAVIGATE THROUGH STORMS AND SEAS”

TABLE OF CONTENTS

NO	SECTION DESCRIPTION	PAGE
I	Abbreviations and Acronyms	3
II	Council Organisational Structure	4
III	Newcastle Municipality Profile	7
1	PART 1 – FINAL BUDGET	
1.1	Mayor's Report	11
1.2	Final Budget Resolutions	26
1.3	Executive Summary	26
1.4	Final Budget Tables and Related Charts	44
2	PART 2 – SUPPORTING DOCUMENTATION	
2.1	Overview of the Annual Budget Process	45
2.2	Overview of alignment of annual budget with Integrated Development Plan	50
2.3	Measurable Performance Objectives and indicators	57
2.4	Overview of budget related policies	60
2.5	Overview of budget assumptions	62
2.6	Overview of budget funding	64
2.7	Grant allocations and grant programmes	67
2.8	Allocations and grants made by the municipality	68
2.9	Councillor and board member allowances and employee benefits	69
2.10	Monthly targets for revenue, expenditure and cash flows	70
2.11	Annual budget and service delivery and budget implementation plans- internal departments	71
2.12	Annual budget and service delivery and budget implementation plans- internal departments	72
2.13	Contracts having future budgetary implications	73
2.13	Capital expenditure details	74
2.14	Legislation compliance status	75
2.15	Annual budget of municipal entities attached to the municipality's annual budget	77
2.16	Municipal manager's quality certification	78

I. ABBREVIATIONS AND ACRONYMS

CPIX	Consumer Price Index
DoRA	Division of Revenue Act
DOHS	Department of Human Settlements
DPLG	Department of Provincial and Local Government
EXCO	Executive Committee
GDP	Gross Domestic Product
GRAP	Generally Accepted Accounting Practice
IDP	Integrated Development Plan
IT	Information Technology
Kl	Kilolitre
Km	Kilometre
Kh	Kilo watt hours
MFMA	Municipal Finance Management Act
MPRA	Municipal Property Rates Act
MSCOA	Municipal Standard Chart of Accounts
MTREF	Medium Term Revenue and Expenditure Framework
NDP	National Development Plan
NERSA	National Electrification Regulator of South Africa
NT	National Treasury
SALGA	South African Local Government Association
SDBIP	Service Deliver and Budget Implementation Plan

II. ORGANISATIONAL STRUCTURE AND COUNCIL

EXECUTIVE COMMITTEE

DESIGNATION	SURNAME & INITIALS	PORTFOLIO COUNCILLOR	POLITICAL PARTY	WARD
Mayor	NKOSI E M	Budget and Treasury Office	ANC	PR
Deputy Mayor	SIBIYA D P	Community Services	ANC	PR
Executive Committee Member	BAM V V	Corporate Services	IFP	PR
Executive Committee Member	CRONJE E J C	Community Services	DA	2
Executive Committee Member	MDLULI R N	Corporate Services	ANC	13
Executive Committee Member	MOLELEKO A R M	Technical Services	ANC	12
Executive Committee Member	SHUNMUGAM M	Planning, Development and Human Settlements	ANC	3
Executive Committee Member	THWALA S M	Technical Services	EFF	PR
Executive Committee Member	ZWANE N A	Budget and Treasury Office	ANC	PR

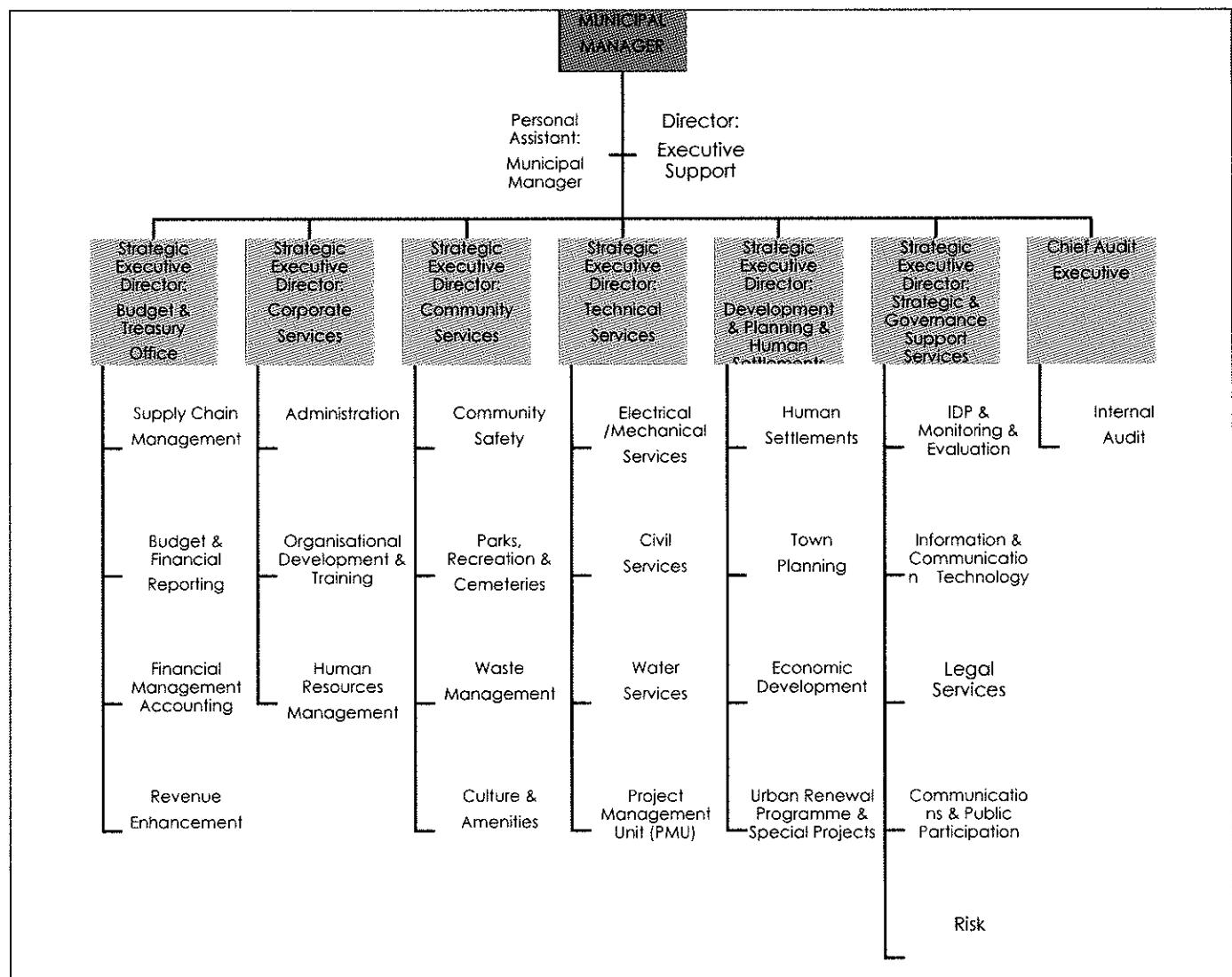
COUNCIL

DESIGNATION	SURNAME & INITIALS	POLITICAL PARTY	WARD
Speaker	KHUMALO J C N	ANC	PR
Councillor	BOSMAN L L	VFP	PR
Councillor	BHULI M V	AZAPO	PR
Councillor	COKA A A	EFF	PR
Councillor	DANISA T J C	ANC	31
Councillor	DLADLA X N M	ANC	1
Councillor	DLAMINI B S	ANC	26
Councillor	DUBE D X	IFP	PR
Councillor	GAMA F P	ANC	32
Councillor	HADEBE V F	EFF	PR
Councillor	HLABISA T S	ANC	22
Councillor	KHOZA A	ANC	28
Councillor	KHUMALO B V	ANC	7
Councillor	KUBEKA V D	ANC	8
Councillor	KUNENE N P	ANC	PR
Councillor	LIU C	IFP	PR
Councillor	MALINGA F A	IFP	PR
Councillor	MAJOZI N K	ANC	11

Councillor	MBATHA N Y	ANC	PR
Councillor	MBULI A M	DA	PR
Councillor	MEIRING A P	DA	4
Councillor	MIYA S G	ANC	19
Councillor	MKHWANAZI H P	ANC	30
Councillor	MKHWANAZI T P	ANC	34
Councillor	MLANGENI M S	IFP	PR
Councillor	MNGUNI N G	ANC	18
Councillor	MOLEFE M V	ANC	21
Councillor	MTHEMBU M V	ANC	29
Councillor	MZIMA V P	ANC	PR
Councillor	NDABA T M	ANC	15
Councillor	NDIMA R B	IFP	PR
Councillor	NDLANGAMANDL A S S	ANC	27
Councillor	NDLOVU M S	DA	PR
Councillor	NDLOVU P F	EFF	PR
Councillor	NGCOBO M E	ANC	25
Councillor	NGCOBO N M	ANC	23
Councillor	NGEMA B C	ANC	9
Councillor	NGEMA D R	ANC	PR
Councillor	NGWENYA D	ANC	16
Councillor	NHLAPHO C L	IFP	PR
Councillor	NHLAPHO S J	ANC	10
Councillor	NKOSI S N	PRM	PR
Councillor	NKWANAZI J B	DA	PR
Councillor	NZUZE T M	IFP	PR
Councillor	SHABANGU S E	ANC	24
Councillor	SIBILWANE D M	ANC	17
Councillor	SIKHOSANE L T	ANC	20
Councillor	STEIN S L	DA	PR
Councillor	THWALA G M B	ANC	29
Councillor	THWALA L G	ANC	5
Councillor	TWALA M W	EFF	PR
Councillor	VOSTER J A	IFP	9
Councillor	YENDE S A	ANC	PR
Councillor	ZIKHALI M F	ANC	14
Councillor	ZULU N S	IFP	PR
Councillor	ZULU S J	RLP	PR
Councillor	ZULU T M	IFP	PR
Councillor	Vacant		
Traditional Leader	KUBHEKA C S		
Traditional Leader	RADEBE B S		

SENIOR MANAGERS

DESIGNATION	SURNAME & INITIALS
Municipal Manager	Mswane B E
Acting Strategic Executive Director: Budget and Treasury Office	Nkosi S M
Acting Strategic Executive Director: Corporate Services	Vinkhumbo N
Strategic Executive Director: Technical Services	Zincume L
Acting Strategic Executive Director: Community Services	Sithole M P
Strategic Executive Director: Development, Planning and Human Settlements	Thusi N
Acting Executive Manager: Legal Services	Zwane Q
Senior Audit Executive	Chenia S



III. NEWCASTLE MUNICIPALITY PROFILE

According to the recent Community Survey (2016) conducted by Statistics SA, Newcastle Local Municipality (KZN252) remains the highest contributor in terms of population growth within Amajuba District Municipality. As of 2016, the population of Newcastle is recorded at 389 117 people, thus marking a 7.1 % increase (25 881 people) over a 5-year period from the year 2011 (363 236 people). This means that on average, Newcastle has experienced a 1,42% annual growth rate, which translates to 5 176 people per year. Newcastle has also experienced a significant increase in the total youth proportion of the population. In terms of the wider KwaZulu-Natal Province, Newcastle ranks 2nd as the local municipality with the highest number of people when compared to other local municipalities, with the highest being the Msunduzi Local Municipality. The population of Newcastle is spread unevenly over 34 wards as per the outcomes of the recent delimitation process by the Demarcation Board, marking a 3 wards increase.

Furthermore, there has been a 7% increase (6 075) in the number of households within Newcastle from 84 272 in 2011 to 90 347 in 2016, with the average household size remaining constant at 4.3 people per dwelling unit. In relation to other local municipalities within the KwaZulu-Natal Province, in the year 2011, Newcastle Local Municipality was ranked 3rd after the Msunduzi and uMhlathuze Local Municipalities respectively. However, recent statistical figures reveal that Newcastle Local Municipality has dropped to 4th place after the Msunduzi, uMhlathuze, and KwaDukuza Local Municipalities respectively. In terms of the 2nd and 3rd ranked local municipalities, the reason for growth in the number of households without any significant growth in the population thereof may be attributed to a general decrease in the average household size thereof, from 3,9 to 3,6 people, and 3,3 to 3,0 people per household respectively.

Traditionally, the town of Newcastle started off as Post-Halt Number 2 on the journey between Durban (then Port Natal) and the Zuid-Afrikaansche Republiek (Transvaal) and Johannesburg. It was strategically positioned in the year 1854, by the Surveyor General of the Natal Colony, Dr. P. C. Sutherland. The city was later known as the Waterfall River Township because of the Ncandu River and, in 1864, the town of Newcastle was founded on the site becoming the forth settlement to be established in natal after Durban, Weenen and Pietermaritzburg. Newcastle was named after the British Colonial Secretary, the Duke of Newcastle and, in 1873 Newcastle became a separate electoral division. In the year 1876, the Fort Amiel was built as a barrier against the Zulus, Fort Amiel now being embraced as one of the significant national heritage sites.

In 1897, a sandstone construction of the town hall started and it was completed two years later in 1899. The town hall was constructed in commemoration of Queen Victoria's diamond, the '60th Jubilee.' The town was also used as a depot by the British during the First and Second Boer War. It also functioned as a major transport junction and a popular stopover for wagons and post chaises during the late 19th century. Newcastle also served as an arena when the British preparation work for the Pretoria Convention of 1881 was done. In 1890, the first train arrived in Newcastle and in the year 1891, Newcastle was declared a district with its own administrative unit. The discovery of coal reserves brought a new era of prosperity and the planning of several ambitious building projects.

Newcastle Local Municipality is one the three local municipalities that make up Amajuba District Municipality, with the others being Dannhauser and eMadlangeni Local Municipalities. It is located on the North-Western of the KwaZulu-Natal Province and borders onto Free State and Mpumalanga Provinces to the West and North respectively. The local municipalities of eMadlangeni and Dannhauser Local Municipalities are located along the Eastern and Southern boundaries of Newcastle. Spatially Newcastle covers an area of approximately 1 854km² in extent. A high majority of the people (80%) within Newcastle resides within the Newcastle East area, which is predominantly township and semi-rural areas characterised by a general lack of adequate infrastructure.

The boundaries of Newcastle Local Municipality were delineated in terms of the Municipal Demarcation Act, 1998 (Act No. 27 of 1998), and takes in account population movement trends, regional economic patterns and the current land use pattern. Currently Newcastle has 34 wards and out of these wards, wards 1, 6, 7, and 30 fall under the custodianship of the Tribal Authorities (Inkosi u-Khathide and Inkosi u-Hadebe) held in trust on behalf of the Ingonyama Trust Board, in terms of the KwaZulu-Natal Ingonyama Trust Act, 1994 (Act No. 3KZ of 1994). As mentioned above, the population is spread unevenly amongst 34 wards with the majority of the population residing in the Newcastle-East area. The boundaries are not just administrative, but are also intended towards the promotions of social cohesion and economic development that's mindful to environmental sustainability, whilst at the same time strengthening the existing regionally significant economic and functional linkages.

Newcastle Local Municipality is well placed to benefit from regional economic growth given its strategic location at the nexus of major tourism, logistics, farming and industrial routes, and as the

seat of government in KwaZulu-Natal Province. It is located halfway between Johannesburg and the harbours of Durban and Richards Bay, hence contributing to the export of manufactured goods and supply to the large Gauteng market. Newcastle is also endowed with good access infrastructure to the areas mentioned above, and such includes quality road and railway networks. The town is situated on the national rail route between the Durban Container Terminal and City Deep in the Gauteng Province, and has within its confines, a major rail exchange terminal, supporting railway stations and extensive goods conversion/warehousing facilities.

The city's local authority has jurisdiction over the surrounding maize, livestock and dairy farms including the industrial areas such as Karbochem, Mittal Steel South Africa (previously ISPAT/ISCOR), and the textile service industry. In addition, the city is also well endowed with coal reserves hence opportunities for coal mining within the area. Arcelor Mittal produces over 105 million tons of steel products annually. Although the Arcelor Mittal steelworks and the Karbochem synthetic rubber plant dominate the Newcastle industrial portfolio, there is a wide range of manufacturing undertakings sharing in the success of the region. Newcastle has welcomed many Chinese and Taiwanese into the region with the addition of over a hundred textile factories.

During the year 2002, the chrome chemical plant was completed in Newcastle which comes as a clear reflection of the city's industrial future. The joint venture project between Karbochem and the German specialist manufacturing giant LANXESS has made Newcastle the largest producer of chrome chemical in Africa. The company announced an investment of €40 million (almost R600 million) in 2012 towards the construction of a CO₂ plant at its site. Mittal Steel also completed a R400 million project to rebuild one of its coke batteries. Other large operations include a diamond cutting works, various heavy engineering companies, steel reinforcement and slagment cement factories.

The Blackrock Casino and Entertainment Hotel provides much entertainment to Newcastle and the surrounding areas. The Newcastle Mall which was constructed by Zen Prop as a R500 million investment, is found adjacent to the Black Rockcasino and Entertainment Hotel, and it serves as a one-stop shopping destination for the wider region of Northern KwaZulu-Natal. Current and planned urban developments within Newcastle entail the new multi-storey Civic Centre, the 80 million expansion of the Victoria Mall, the Meadowlands Estate in Madadeni (residential estate), major extensions and upgrade of the Madadeni Hospital (Northern KwaZulu-Natal Regional Hospital), a R100 million upgrade of the Madadeni Police Station, the Vulintaba Estate, more

development at the corner of Allen street along the Trim Park, the new Audi dealership next to Newcastle Mall (Aquaranf), Spar at corner Allen and Memel Road, planned Mercedes-Benz and dealership next to the Newcastle Mall (Aquarand), the development of the Heartlands Dry Port next to the train station, and the possible extension of the Newcastle Airport (Newcastle Airport Techno-hub). From the 1880s, Newcastle experienced rapid economic growth. Today Newcastle has the largest concentration of industry in the North-Western KwaZulu-Natal region.

There has been a 23.04% decline in the level of unemployment within Newcastle, from 87 619 (60.48%) in 2001 to 37 686 (37.44%) in 2011. In terms of unemployment by gender, the highest concentration is amongst the female population. With regards to formal employment by sector within Newcastle Municipality, trade/retail is the highest employer of the population at 8 888 as of July 2012, followed by Government services at 18 324. Government services as an employment sector is closely followed by manufacturing at 6 419, and subsequently finance at 5 375. As of 2013 the GDP of Newcastle was recorded as occupying 80.20% of the total GDP (0.7%) generated by Amajuba District within the KwaZulu-Natal Province.

In terms of the Human Development Index (HDI – the composite measure of life expectancy, education, and income used to measure human development), Newcastle is currently sitting at 0.57 which is deemed by the United Nations Development Programme as being medium human development index. The Gini Coefficient (the measure of inequalities) in Newcastle assumes a municipality working towards addressing inequalities. In the year 2002 inequality was estimated at 0.65 and in 2012 it was estimated to be 0.62 hence marking a move towards perfect equality. Regarding the levels of poverty, Newcastle has also experienced a decrease from 56.0% in 2002, 51.0% in 2006 and 44.4% in 2012. The annual income per capita of Newcastle Municipality is currently sitting at 29 264 thus meaning that the majority of individuals within Newcastle earn R2 438,66 per month hence falling above the global poverty line of \$1,25 per day based on the dollar – rand exchange rate.

1.1 MAYOR'S REPORT

STATE OF THE TOWN ADDRESS (SOTA) AND THE DRAFT BUDGET SPEECH

Madam Speaker

Honorable Deputy Mayor and the entire Executive

Fellow Counsellors

Amakhosi asendlunkulu

The Religious Leaders present

Captains of industries and business leaders present

Regional heads of various Government departments

Fellow citizens of Newcastle

Leadership of the ANC

Leadership of all Political Parties Present

This year South Africa marks 23 years since the dawn of democracy and 21 years since the passing of The Constitution which gave rise to rights of all citizens enshrined in the bill of rights. This means that we as government we need to move with speed to redress the past imbalances. This will assist us to restore the dignity of our people who were stripped off their rights over 300 years of colonialism.

Madam speaker many people have been asking me why am I keeping my hair and beard as I usually do not keep hair at all. My answer is very simple, I will not cut my hair until we, as the Municipality are able to cut the grass to the satisfaction of the people we are leading.

As the new administration we are faced with different set of challenges from previous administration. We are entrusted with that responsibility, it is our commitment and with humility that we accept such responsibility.

We are mindful of the commitments we made during the build up to local government elections in 2016 and we are working tirelessly to achieve them, the aspirations of the vast majority of our people lies in our hands and we cannot dare disappoint.

Madam speaker I deliver this my maiden budget speech in the year that the ruling party, the ANC, has declared as the year of Oliver Tambo, let us deepen unity. Comrade O.R led the ANC in exile and in very difficult times. He may no longer be with us, but his legacy lives on.

He was thoughtful, wise and warm hearted. His simplicity, his nurturing style, his genuine respect for all people seemed to bring out the best in him. His rural background and the expertise he acquired through education shaped him to be the man that he was. If we are to tackle the struggle of making the lives of our people better, we must emulate comrade O.R. He was a real servant of the people and a selfless leader. During our local government elections campaign we committed to our people that we shall ensure the following among other things:

1. Visionary, Responsible and Accountable leadership.
2. Improved audit outcomes
3. Improved performance management and compliance
4. Improved public participation
5. Improve on LED to realize tangible results

I want to re-affirm that we are still committed to that. As I said earlier on we are facing different sets of challenges as this administration. You may all have seen the press release on the financial situation of our Municipality. As the Mayor, I have been upfront to say indeed we are facing and experiencing financial challenges. Inevitably, this will affect on our capability to render services. We are working hard to cut off on luxuries and we are improving our collection rate. We cannot be expected to deliver services adequately when those who can afford to pay are not paying. In return we commit to handle the monies entrusted to us in a proper manner. We will ensure value for money, transparency and accountability. As much as financial constraints may have effect on our service delivery, we believe lack of or inadequate supervision of the workers on the ground adds to the problem. We are working to improve on that aspect.

FINANCIAL ANALYSIS

Many maybe asking themselves as to how did we land in dire financial situation? The financial analyses we have conducted reveals among other things that:

- Previously the Municipality over committed reserves into funding of capital projects.
- The deficit budget approach resulted in limited ability to generate reserves. Thanks to the MSCOA deficit budgeting is no longer possible.

- The adoption of below NERSA approved tariffs in the previous financial years exerted pressure on the operating budget to date.
- The outstanding loan account of R500 million exerts pressure on our operating budget. This is serviced at a rate of R47 million on interest alone per annum. It is projected that it will take the Municipality about 9 years or so to service the loan account in full at this rate?
- Municipality incurred increased employee related cost as a result of re- engineering and absorption of contract workers
- About R96 millions of this financial year equitable share was used for the previous FY's (2015/16) financial commitments.
- The Municipality requires about R116 million to cover monthly fixed costs while the average receipt is about R 111 million
- There are not sufficient reserves to cover the unspent grants, consumer deposits and reserves which must be cash backed.
- As at the end of February 2017 the balance of conditional grant to the tune of R115 million were not cash backed.
- The balance of internally funded capital projects for the current financial year in the sum of R 32 million is not cash backed

Given this situation indeed we have to “Navigate through storms and seas” No doubt this situation is not going to enable us to render all our services as expected, and at the level expected.

Madam Speaker it cannot be disputed that since the ANC took over in 2009, landscape of service delivery has never been the same. Some people say it is not enough, and indeed we agree it is not. It will not be enough for as long as stark difference in terms of development between the town and townships remains as it is. It is and it will remain difficult to render the services in accordance with the needs of the people which are unlimited, based on the limited budget and resources. The needs of our people are not only unlimited but they are getting more and more day by day. The general growth of our economy and our local economy in particular is not helping us much.

When we came into the office we had to grapple with an unfunded budget. We had to review the budget and effect some serious cuts on the budget to get it to the state of being funded. We are skirting on a very thin ice due to budget cuts. It, therefore becomes important that we keep our budget realistic, and really realistic this time around. The effect of the unfunded budget we found is still going to be with us for some time.

Despite all the challenges mentioned above, we have been able to continue to deliver services to improve the lives of our people. The circumstances under which we found ourselves as the new administration reminds me of the words of Oliver Tambo. When he said “Comrades you may think it is very difficult to wage liberation struggle. Wait until you are in power. I might be dead by then. At that stage, you will realize that it is actually more difficult to keep the power than to wage a liberation war. People will be expecting a lot of services from you. You have to satisfy the various demands of the masses of our people. In the process”. How prophetic were these words? Standing on the shoulders of giants like O.R makes us to face our leadership responsibility with more determination. It is profound revelations like this that makes us indeed to tell no lies and to claim no easy victories. It is with this understanding that we know our work is never going to be easy.

In the current financial year we have been able to award 10 full bursaries to local learners who are now university students. We wish we could have assisted more, however our resources are limited. This is done in the spirit of the African proverb that says “it takes the whole village to raise a child” We would like to thank the private sector and individuals who have also assisted many other students in various ways. How can we forget to once more congratulate our District Amajuba for performing best (No. 1) in the province. We are proud of you Jobe and the entire management. We avail ourselves as Municipalities to assist where it is necessary. Through the assistance of the LGSETA we have been able to place 71 students for a period of 18 months, with a stipend of R1 800.00 per month. 30 of our adult employees are going through the adult education and training in a quest to improve their quality of life. We acknowledge that they were not educated because they were denied an opportunity to go to school by the apartheid government.

INFRASTRUCTURE DEVELOPMENT

We continue to strive to bring services to our people, particularly those that impact their lives daily. A tarred road may not put a plate of the food on the table, but it goes a long way to restore dignity and respect to our people. In Osizweni we have upgraded access road to the extent of 4.420 km with the budget of R24 661 295.48. Currently the sum of R14 457 043.93 has been spent on these projects. These include access roads OB1, OB3 and OB8 in ward 18. Also OB7, 13, 45, 134 and OA17 in wards 13, 17, and 11. These projects have seen approximately 60 job opportunities being created. During the implementation of these projects we have encountered

various challenges ranging from locals protesting against the contractor, lack of materials from the market (like G5), labour dispute between the contractor and workers. Level of existing services that were unknown conflicted with storm water levels. I am pleased to report that all the challenges have been overcome. Progress on the projects is well underway.

In Madadeni, we are busy improving 5,185km of roads with the budget of R42 354 669.48. There is good progress as it is shown by spending to date of R32 912.36. These road construction projects are in ward 24, 28,6,23, and 27. 76 job opportunities have been created through these projects. Almost similar challenges encountered with the Osizweni projects were also encountered in these projects. Again, all the challenges were resolved and the work is progressing well.

Challenges will always be there, but of greater importance is our attitude and approach towards the resolution of same. From time to time we do encounter cash flow problems which cause some delays in the implementation of the capital projects.

Most of these roads are constructed with sidewalks to provide for safety of the pedestrians.

The Harthorn Street extension is almost complete, in Ward 3. The contractor is busy attending to the snag list. The budget for this project is R1 000 000.00. For the construction of Watt Street a budget of R3.6 million was allocated. The surfacing is 95% complete and the contractor is busy with storm water drainage. There were delays caused by the sewerage pipe that is connected to the storm water. 8 Job opportunities were created.

WATER AND SANITATION

Madam speaker, we have very high regard and respect for our rural communities. Our government has committed to uplift and develop our people where they live. It is for that reason that we are also in a very equitable manner developing areas like Charlestown, Normandien, Inkwelo and Ingogo among our rural areas. The construction of Charlestown main internal road is underway and is progressing very well, the project is practically complete and the project is a sum of R6 million. The contractor is busy with the snag list.

We are committed to improving the quality of life and economic wellbeing of our people living in relatively isolated and sparsely populated areas. We are also very clear in that we shall improve the rural lives with participation of the rural communities themselves so as to meet their needs.

Madam speaker we all know water is life and sanitation is dignity. We cannot over emphasize the importance of water in the human life. On the entire earth water is a most important thing. Every living organism needs water for survival. Both the constitution and the NDP (National Development Plan) enjoin us to provide water to people or at least access thereto.

On the provision of water the following milestones have been achieved:

In Charlestown and Ingogo we have completed the ground water development. The pump station has been constructed and is operational using a generator while waiting for power connection from Eskom. It is pumping 2000 kl of water per day and we were able to supply water even during the drought period. This project came at a cost of R11 501 460.

We have completed procurement of material on the Blaauwbosch bulk water supply project which will services the areas of Blaauwbosch and Dry cut. The total cost of the project phase is R115 million. We are now in the process of appointing the contractor to construct the pipeline.

The Siyahlala bulk water services has been completed at the cost of R45 104 804

Madam speaker the issue of water loss continues to be a challenge. Even the National government has come up with the “war on leaks” programme which is aimed at reducing water loss through leaks on our aging infrastructure. We have spent more than R13 million on Osizweni water conservation and water demand management. We will be continuing with the war on leaks in the 2017/18 financial year as we expect Departments of Water and Sanitation to allocate additional budget for this purpose.

We are continuing with the Soul City and Dicks water supply network. This will enable provision of basic water supply with planned yard connections of about 350 households.

We have in our current budget a sum of R 7 million for the installation of VIP toilets in JBC and NIC areas. The procurement process is at its final stages. We are indeed committed to restoring the dignity of our people, particularly in rural communities.

ON RURAL ELECTRIFICATION

We have been able to switch on 74 households in January 2017 at Charlestown. The project is continuing as we speak. The same with Inkwelo where we are to switch on very soon. Also at Normandien the contractor is on site. The total budget for this areas electrification is R 7 million. We will not rest until such time that the entire Newcastle jurisdiction has access to electricity and all other basic services.

ON HUMAN SETTLEMENT

We believe we have made significant progress in the provision of houses in our area in the past years. The population growth in our town, as a regional economic hub, makes it difficult to cope with the demand for housing. The following housing projects are underway.

Siyahlala Housing Project. We have started with the first phase of the project. The first phase compromises of 500 units of which 100 have been completed to date. The location of that project affirms our commitment to social integration. The cost of this project is R 56.6 million.

Osizweni Section E Phase 3 Project, to the value of R13601 000 is the most challenging project in terms of performance. The implementing agent has been put on terms to improve performance

Emawozeni brownfield housing project is experiencing a delay due to the outstanding addendum to be signed by the MEC for Human Settlement. We are in constant contact with the department to explore the signing of the addendum by the MEC. The value of the project is R11 476 638.

H39 Housing Project- the installation of internal services is underway. Currently we are facing the challenge of relocating 196 shacks, 100 toilets and 12 solid houses that are on the way of services. We are expecting to start with the construction of the top structures around June/July 2017. The value of project is R48 million.

Charlestown Housing Project. For the first time since the advent of democracy, Charlestown is receiving government built houses. We, as Council, are very much excited about this project. No doubt, people of Charlestown are even more excited. We thank them for their patience over the years. They appreciated the fact that if it was happening in Madadeni and Osizweni, it was also

coming to them. That is the nature of Development, it cannot happen at all the places at the same time. The value of this project is R21 million. Construction of internal services is well underway. The slight challenge is the bulk sewer services without which the top structures cannot be commenced with. The Municipality is working hard to get bulk sewer services installed. This is one project we pride ourselves with. We cannot wait to see it complete.

Madam speaker we would be doing an injustice if we do not acknowledge the role played by private sector in various ways, to uplift the lives of our people. We wish to extend our gratitude and appreciation to various corporates and businesses who lend a hand in this regard. Standard Bank has built and donated 4 houses in ward 6,9,12 and 17. We are hoping that other businesses and individuals who are better blessed than many will come forward to lend a hand in the struggle to improve the lives of our people for the better.

Fairleigh and Suryaville flats needed some attention. In the Fairleigh flats there were issues of unsafe stairways and non-compliance with the fire regulations. In Suryaville there were, over and above those at Fairleigh flats, issues of leaking roof and taps. Total cost of these projects is R12 ½ million. We are aware that there are complaints pertaining to the quality of workmanship in these projects. The department under Cllr Matthew Shumnugam is looking into these issues.

COMMUNITY SERVICES

This department together with technical services are the face of the Municipality.

In community services we have the following projects under the current financial year.

- Refurbishment of town library. The cost of the project to date is above R9 million rand, this is a multi-year project.
- New ablution at Fort Amiel. We had one set of toilets and that posed a challenge for the museum. The project is complete and the value was R6200 000.
- Charlestown hall, we all remember the unfortunate incident when some unruly members of the community burnt down the hall in Charlestown. A new hall has been completed to the tune of R2.1 million. It is very sad that we are not aware of any person who has been charged and convicted for this incident. We may have forgiven but we certainly have not forgotten. And we will never forget.
- Osizweni Netball court has been completed to the tune of R1million.

- JBC Hall, there are challenges and currently there is no progress on the construction. We expect management to submit a report on the way forward and the resolution of this stalemate.
- Establishment of a play park in Madadeni in Ward14. This project is proceeding well and should be completed by the end of this financial year. We have to mention that we have noted with concern that most play parks equipments have been damaged including fairly new parks. Given our state of finances we may soon be faced with open spaces with no equipments. It is important to ensure good quality equipments are used, and not equipment of inferior quality.

ON THE WELFARE OF OUR COMMUNITY

In our struggle to pursue a better life for our people, we are inspired by the Freedom Charter. When it was drawn up and adopted, it became a clear statement of the future of our country. In carrying out responsibility as Government, working together collectively with all other government departments, we are called upon to ensure that:

- No child must be exposed to an environment that will put his/her future and that of the country at risk.
- No woman must suffer abuse
- No child must go to bed hungry because of deprivation and poverty
- No senior citizen must be abused in any way or neglected.
- No farm worker must suffer indignity of abuse, deprivation and torture
- The aspiration of young people must be natured and nourished to become a reality.

This calls upon all of us as the citizens of our country and various towns to work together united by our common vision and purpose.

As a Municipality we are concerned about the welfare and development of communities. OSS becomes important in this regard. To give effect to the implementation of Operation Sukuma Sakhe, the Special Programmes Unit ensures that all relevant stakeholders participate in the struggle for the people of the our town to “stand up and build” to overcome the issues destroying our communities such as poverty, unemployment, crime, substance abuse and HIV. This forges delivery of services through partnership with Community Stakeholders and Government. Government has structured programmes which need to get as deep as to the level of the people we

are serving. This is at ward and voting district level. We accept that we cannot achieve this alone as government, but need communities involvement in building the nation together. Blacks, Whites, Indians, Colored we need one another. War Rooms become essential in this regard.

YOUTH DEVELOPMENT, JOB CREATION AND TECHNOLOGY

South African youth unemployment rate are now considered to be chronic. The latest figure show that about 48% of South Africans between 15 and 34 were unemployed in the third quarter of 2016. The situation has worsened over the past 8 years despite a great deal of policy attention and the implementation of a range of public and private interventions. If not addressed as a matter of urgency, this situation is increasing level of frustrations and impatience among the youth. As Newcastle, we are not immune from this situation.

The Municipality has taken a radical position towards youth development and economic transformation. We have resolved to focus on

1. Youth and Entrepreneurial Development,
2. Government and Private sector linkages to stimulate Economic Growth and Foreign Direct Investment.

We will soon be announcing the opening of the full service Centre by the NYDA in our town. This fully fledged Centre will not only assist with youth and entrepreneurial development, but also with access to finance for the youth to start businesses. Access to finance is the main obstacle to our youth in realizing their dreams of starting their own businesses.

As Newcastle Municipality we are excited to announce the commencement of a digital transformation initiative that aims to use technology to enhance service delivery, open opportunities for business, expand options for youth job creation and create an environment for rapid transformation. The initial phase will see the installation of 100 public hotspots by June 2017, at selected municipal facilities and service centers, including schools and clinics. This will also allow for affordable access to broadband for the general public interfacing with the Municipality.

2017/18 FINANCIAL YEAR DRAFT BUDGET

Let us now talk about the 2017/18 financial year draft budget. Due to the lessons learnt in the 2016/ 17 financial year budget, we are approaching this budget carefully. We have to be as realistic as we can be. The exercise of reviewing the 2016/2017 budget has taught us some lessons in a very hard way

The Operational Budget 2017/2018 proposed budget comprises of an operational budget to the tune of R1 816, 269, 996.

The Municipality is expecting to generate the following operational revenue

R 696.6 million from the sale of electricity

R 172 million from the sale of water

R 110 million from the sewer charges

R 89 million from refuse removal

R 283 million from rates

These are our primary sources of revenue and they are expected to contribute about R1.3 billion to the projected revenue. This represents 77% of the total projected revenue.

Grants and subsidies will contribute R 345.7 million to the operating revenue which represents 20% of the total projected revenue. Fines will generate R5.2 million. About R15.5 will be generated from interest on outstanding debtors, R8 million from facilities rentals, mainly municipal flats and houses. R17.7million will be generated from the sundry revenue of the Municipality.

In accordance with the relevant legislation and national directives, the Municipality projected revenue collection rates are based on realistic and sustainable trends. The Municipality will clean-up its indigent register by identifying those who can afford and those who cannot afford to pay.

We are fully aware and we appreciate the fact that we have cut to the bone. The departments are expected to closely monitor their budget performance on weekly basis. Desperate times call for desperate measures. If you don't have it, you can't spend it. We must remember that we have a half a billion rands loans to service. We are operating with a serious deficit as we speak.

We know budget deficit solutions require leadership at all levels. We cannot afford to increase taxes and turn to borrowing without effecting drastic cuts on our budget spending. We cannot afford to spend more than we make, ideally we should borrow what we can afford to pay back, but for now we can't even borrow.

The major expenditure projected are to be incurred on bulk purchases and employee related costs

R 579.3 million will be spent on bulk purchases as follows

- R494 million for electricity
- R66.7 million for UTW
- R15 million for deportation for Department of Water affairs as we as
- R 3 million for water purchase at Charlestown

R 514.7 million will be spend on employee costs, with only R30 million appropriated for overtime in respect of essential services.

R 3.8 million is projected for vacant SED positions and R16 million for critical positions

We are further projecting to spend R 45.1 million for the maintenance of municipal infrastructure. While it is well understood that this provision is far less than the norm or 8% of our total budget, this was provided on the basis of availability as the budget is income based.

R92 million is projected to fund indigent subsidies and note to be taken is that free water subsidy has been reduced from 12kl to 6 kl per household per month.

A further R128 million has been appropriate in respect of general expenditure, R5.7 million for collection fees, R22.2 million for contracted services, R47 million for the interest on loans. R23.2 million is for remuneration of Councillors. For debt impairment and depreciation we project R247.8 million and R93.4 million respectively.

RATES AND SERVICES INCREASE

The funding of Operational Budget is obtained through various sources, the major ones being:

- Property rates which we propose to increase by 7%
- Electricity 1.88 %
- Water 7%

- Sanitation 7%
- Refuse removal 7%
- Other general sources of revenue 10%

Our Municipality comprises of both rural and urban area as well as wide spread of income groups. Due to variation in living environment, the Municipality area has a number of households who currently do not have access to all services. We continue to provide basic services for free to households who earn below the threshold of R3500.00 pm. We provide free 50 kW of electricity per month, free 6 kl of water per month, with the following services subsidized 100% sanitation, refuse removal as well as property rates. We further provide the following rebates:

- Floods victims 50%
- Pensioners 25%
- B&B Business 10%
- Bus development with property above R50 million
 - ✓ From year 0-4 40%
 - ✓ From year 5-6 25%
 - ✓ From year 7-8 10%

CAPITAL BUDGET

As we have been doing since 2009 we will continue with Service Delivery Projects. We now even have better experience in rolling out service delivery. We will do so within our budgetary constraints and keeping in mind the costs of maintenance and upkeep of the capital infrastructure we are building. We must also ensure that we get good quality and good workmanship from our services providers. We must guard against putting up infrastructure that we cannot maintain going forward. This causes more of a frustration to our communities than relief. About 90% of the capital projects are grant funded

For the 2017/18 financial year the capital budget is the sum of R253.7 million, which will be allocated as follows

Roads Infrastructure Improvements	R 89,113,702.00
Water & Sanitation	R 120,589,000.00
Electricity Roll Out	R 9,000,000.00

Extension of Newcastle library	R	5,425,000.00
Building of the new library in Charlestown	R	10,000,000.00

It is exciting that the community of Charlestown are going to have a fully-fledged library. This goes a long way to show that our government is serious about the education of our communities. We hope that after completion it will be put to good use by the Charlestown community and surrounding areas.

The extension of Newcastle library will enhance library services and will improve accessibility with more efficiency and effectiveness. The extension overall will provide improved floor space in a number of areas in the library.

The roads improvement and stormwater infrastructure will assist in the improvement of the quality of roads infrastructure and better management of stormwater through proper drainage system. Included in that will be the traffic calming devices and pedestrian side-walks.

The water and sanitation projects will ensure improved sanitation system, accelerate access by increasing number of households with basic access to sanitation. This will also see the increase in the number of households with access to basic potable water.

The following Wards will benefit from the proposed capital budget:

On the roads infrastructure improvements including storm water management wards 13,18,11,8,9,12,30,17,21,1,2,24,28,19,14,10 and 26.

On water and sanitation infrastructure improvements wards 5,4,3,2,31,21,1,19,16,18,8,9,11,12,30,17,31,6,33, and 12.

On electricity roll out ward 25 and ward 1

FUNDING OF CAPITAL BUDGET

The capital budget is funded mainly by allocations made to us by National and Provincial Governance in the form of grants, as well as a minor portion of internally provided funds. No external loans will be taken by the Municipality to fund the capital programme. Furthermore, no

reserves are available for the purpose of funding the capital budget saves for VAT returns on grants projects.

The Municipality has approved R235.7 million from grants receipts to fund Capital (Projects) Budget, both from National and Provincial Governments. This amount is made up of MIG, MWIG, NDPG, and Electrification Grant, as well provincial allocation from Department of Arts and Culture under the leadership of MEC Bongi Sithole Moloi. R18 million worth of projects will be funded from internal funds to be generated through VAT refunds on conditional grants as per circular 58 of the MFMA.

Madam speaker that than completes our proposed draft budget 2017/2018 financial year

I would like to thank the members of the Executive Committee in particular and the entire council for their tireless efforts in ensuring that we keep the ship afloat and navigate through storms and seas. Executive Committee members were the first victims of our financial situation as they had to forego 50% of their salaries. Despite that, they are still committed and dedicated to their work. Some of them are professionals who could easily walk away to make more money elsewhere. I would like to say to them please let us remain steadfast. At some point, **THIS TOO SHALL PASS.**

I would like to thank the senior and middle management for the work that they are doing in this regard. As Councillors, we are aware that most of the time we are very hard on you. Please understand that it's nothing personal, and it's all about the struggle to improve the lives of our people.

In March, I emphasized the fact that what we tabled this was a Draft Budget. We were still due to go out on a consultation process on it. Through such process, we expected all individuals and all stakeholders to constructively criticize the draft budget and make recommendations, which indeed was the case. I am glad Madam Speaker to report that such process has been finalized. Some of the issues raised were genuine service delivery issues, while others were issues of service delivery but not within the mandate or the municipality. Of course there were also issues that interrogated the credibility and some of the basis of our budget.

While it is a known fact Madam Speaker that it would be impossible to incorporate all such issues and demands on the budget due to financial constraints, we are glad that it gave the process gave

this new council an opportunity to understand the needs of community of Newcastle. We will use these as the basis for building our service delivery programme in the next budget, but also to work closely with other sector departments for those services not within our mandate Madam Speaker.

Last and most importantly I would like to thank my wife and my entire family for their support and understanding.

Honourable Speaker, I hereby table the 2017/18 final budget for approval!

By EM Nkosi

Mayor: Newcastle Municipality

1.2 BUDGET RESOLUTIONS

- (a) That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2017/18; and indicative allocations for the two projected outer years 2018/19 and 2019/20; and the multi-year and single year capital appropriations be approved;
- (b) That the sources to fund both operating and capital budgets be noted and approved;
- (c) That the Municipality's annual allocation of R66 793 006 to uThukela Water for the provision of bulk water be approved;
- (d) That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out Tariff of Charges that were used to prepare the estimates of revenue by source, be approved with effect from 1 July 2017 for all services except for water and electricity consumption, which be levied on the new tariff with effect from 01 August 2017;
- (e) That the Tariff of Charges be approved as attached in Annexure E and be applicable with effect from 01 July 2017;
- (f) That the revenue collection and debt management strategies be enhanced to improve the revenue collection rates
- (g) That Property Rates, Water, Refuse and Sanitations tariffs be increased by 7% and other tariffs be increased by 10%.
- (h) That NERSA proposed municipal Electricity Tariff guideline increase of 1.88% increase be hereby approved, it be recorded that the application supporting this tariff increase is currently being processed by NERSA.

- (i) That bulk electricity purchases be increased by 0.31% as per NERSA and the National Treasury guidelines.
- (j) That a water surcharge of 30% on water tariffs be repealed as there are no longer draught challenges in Newcastle;
- (k) That in terms of the Indigent Policy, the monthly household earnings of an indigent application be capped at R3 500 per month.
- (l) That indigent benefits be capped and approved as follows:

Electricity consumption	: 50 kW/h
Water consumption	: 6 Kl
Electricity availability	: 100%
Water availability	: 100%
Sewer	: 100%
Refuse	: 100%
Property rates	: 100%
- (m) That the rate rebates be capped and approved as follows:

Pensioners	: 25%
Flood victims	: 25%
Bread and breakfasts businesses	: 10%
Business development with Property greater than R50 million:	
from 0-4 years	: 40%
from 5-6 years	: 25%
from 7-8 years	: 10%
from 9 years onwards	: 0%
- (n) That the Budget Policy be noted and approved;
- (o) That the Tariff Policy be noted and approved as attached Annexure F;
- (p) That the Rates Policy be noted and approved as attached Annexure F;

- (q) That the Indigent Policy be noted and approved as attached in Annexure F;
- (r) That the Customer Care, Credit Control and Debt Collection Policy be noted and approved as attached in Annexure F;
- (s) That the Provision for Doubtful Debt and Debtors Write-Off Policy be noted and approved as attached in Annexure F;
- (t) That the Supply Chain Management Policy be noted and approved as attached in Annexure F;
- (u) That the Cash and Investment Management Policy be noted and approved as attached in Annexure F;
- (v) That the Asset Management Policy be noted and approved as attached in Annexure F;
- (w) That the Petty Cash Policy be noted and approved as attached in Annexure F;
- (x) That the Virement Policy be noted and approved as attached in Annexure F;
- (y) That the Funding and Reserves Policy be noted and approved as attached in Annexure F;
- (z) That the Borrowing Policy be noted and approved as attached in Annexure F;
- (aa) That the Loss control Policy be noted and approved as attached in Annexure F;
- (bb) That the Short-term Insurance Policy be noted and approved as attached in Annexure F;

- (cc) That progress made by the municipality with regards to the implementation of Municipal Standards Chart of Accounts as in the draft budget report be noted.

- (dd) That Provincial Treasury and management response on the municipality's 2016/17 be noted. It further be noted that such assessment was received after the draft budget was approved.

1.3 EXECUTIVE SUMMARY

1.3.1 INTRODUCTION

The 2017/2018 annual budget is a consolidated budget of R2.078 billion which has been developed with an overall planning framework and includes the programmes and projects to achieve the minimum strategic objectives of Newcastle Municipality as per the IDP. This budget has been set against the back of the current slow economic growth, escalating debtors, historical commitments on loans, while at the same time take cognisance in respect of burden to consumers through rate and tariffs. Economic challenges will still continue to put pressure on municipal revenue generation and its ability to collect in the 2017/18, hence a very conservative approach was adopted when projecting expected revenue and receipts based on the current payment factors.

Despite these challenges, it remains the mandate and responsibility of the municipality to sustain service delivery through this budget by reprioritising expenditure to ensure key objectives are achieved. Provision in this budget continue to support government's commitment to broadening service delivery and expanding investment in infrastructure, especially through capital projects, while at the same time taking into account the limited fiscal environment upon which this budget was prepared. The budget has further been structured to contribute to the municipality achieving the minimum strategic objectives of the IDP, taking into account the effect of limited resources. The National Treasury's MFMA circulars were used to guide the compilation of the 2017/18 budget. Furthermore, the budget format and the content incorporates the requirements of the Municipal Budget and Reporting Regulations.

The following principles were applied in formulating the draft annual budget:

- Affordable, realistic and funded budget
- Realistic and achievable collection rates
- Major tariffs to be realistic and affordable
- Budget to contribute to achieving strategic objectives of the IDP
- Repayment of loans to be properly provided, no new loans
- Capital expenditure to be mainly funded from grants
- Indigent subsidy for water to be reduced to the national guideline of 5kl
- Rate rebates for businesses to be reduced to boast revenue
- Revenue driven budget with a view to achieve affordability.

- IDP driven budget in order to achieve the requirements of community based planning

This budget was not crafted without challenges. The main challenges experienced can be summarised as follows:

- The on-going difficulties in the national and local economy which necessitated costs containment
- National Treasury austerity measures with minimal growth in grants allocations and tariff increases.
- Reduction in the allocation of repairs and maintenance due to funds available for spending
- Additional capital infrastructure injection with no corresponding provision of near or future maintenance due to limited resources
- Inability to extend capital budget projects in terms of the IDP, other than those funded by grants and already on the business plans.
- The impact of estimated unspent grants in the 2016/17 financial year, which is expected to some extent affect the 2017/18 financial year.
- The adoption of income based budgeting, which has proven that previous budgets had been overstated in expenditure.
- Inability to provide for adequate vacant and critical positions due to limited funding.
- Cutting down on sum of the key functions due to limited funds, however prioritising the service delivery.
- Electricity tariffs increased far below what was expected, impacting negatively on the operating expenditure appropriated.

1.3.2 OVERVIEW OF THE 2017/2018 BUDGET

OPERATING BUDGET

The operating budget, which funds the continued provision of services provided by the municipality, is projected to reduce from R1.958 billion in 2016/17 to R1.824 billion in 2017/18. The reduction is mainly due to the reduction in the depreciation charge. There has been a general increase in order expenditure items like employee costs, bulk purchases, being the major expenditure items of the municipality. The increase in the overall operating budget on these items is mainly due to the provision of the following:

- Costs of bulk purchases of electricity and water
- Increased costs of employee related costs due projected salary increase
- Repairs and maintenance of infrastructure
- Finance charges to service loans of the municipality

OPERATING REVENUE

Total operating revenue is projected at R1.742 billion in the 2017/18 financial, representing an increase of R65.6 (4%) million from the current year's adjustment budget of R1.676 billion.

The major items of the operating revenue for the 2017/18 financial year are as follows:

Details	2017/18 R'000	% of Total Budget
Electricity	693 620	39,8%
Water	172 773	9,9%
Sanitation / sewer	110 074	6,3%
Refuse	89 260	5,1%
Property rates	283 210	16,3%
Grants and subsidies	345 790	20,8%
Other revenue	17 735	1,0%
Rental of facilities	8 059	0,5%

The following is the analysis of the revenue sources which have had the main impact in the increase of revenue:

- **Electricity services: R693.6 million, increase of R3.9 million (0.55%)**

Electricity tariffs are expected to increase by 1.88% as per the NERSA guideline, and this is expected to yield an additional revenue of only R3.9 million in the 2017/18 financial. It is noted that this increase is below the expected increase of revenue based on the percentage increase, however this is due to electricity consumption expected to be sold in the 2017/18 financial year. Cognisance should also be taken that this percentage increase is far below what was expected, where compared to the previous financial years.

- **Water services: R172.7 million, increase of R11.3 million (7%)**

Water tariffs are expected to increase by 7% in the 2017/18 financial year. While it noted that such increase is above the projected CPIX of 6.4%, the tariff increase is however based on the costs of maintaining aging water infrastructure in Newcastle, which will far exceed the 6.4%. The increase of 7% in tariffs is expected to generate additional revenue of R11.3 million, from R172.7 million in the 2016/17 to R161.4 million in the 2017/18 financial year.

- **Refuse removal: R89.2 million, increase of R5.8 million (7%)**

Refuse removal tariffs are expected to increase by 7% in the 2017/18 financial year. While it noted that such increase is above the projected CPIX of 6.4%, the tariff increase is however based on the costs of providing refuse removal services, especially in the east. The municipality has extended the provision of refuse removal to all the areas in Newcastle, including those where no revenue will be generated from such services. This has therefore rendered the costs of providing refuse removal far above the expected CPIX rate of 6.4%. The increase of 7% in tariffs is expected to generate additional revenue of R5.8 million, from R83.4 million in the 2016/17 to R89.2 million in the 2017/18 financial year.

- **Sanitation: R110.0 million, increase of R7.2 million (7%)**

Sanitation tariffs are expected to increase by 7% in the 2017/18 financial year. While it noted that such increase is above the projected CPIX of 6.4%, the tariff increase is however based on the costs of maintaining aging sanitation infrastructure in Newcastle, which will far exceed the 6.4%. The increase of 7% in tariffs is expected to generate additional revenue of R7.2 million, from R102.8 million in the 2016/17 to R110.0 million in the 2017/18 financial year.

- **Property rates: R283.2 million, increase of R20.3 million (7.7%)**

Property rates are expected to increase by 7% in the 2017/18 financial year. While the municipality notes that a tariff increase of 7% is higher than that an inflation forecast of 6.4%, the increase less than 7% will however not be adequate to compensate the costs of non-trading services. The municipality is incurring a lot of costs in other departments where no revenue is generated. This increase will assist the municipality to cover such costs which it has inherited over a period of time. The increase of 7% tariffs, coupled with expected growth in properties is expected to

generate additional revenue of R20.3 million, from R262.9 million in the 2016/17 to R283.2 million in the 2017/18 financial year.

- **Transfers recognised: R345.7 million, increase of R14.3 million (4.3%)**

Revenue from grants is expected to increase by R114.3 million to R345.7 million in the 2017/18 financial year. These operating grants are the equitable share, the Finance Management Grant (FMG), Expanded Public Works Programme and various other, provincial grants from department of Arts and Culture and the Department of Human Settlements. A portion of the Municipal Infrastructure Grant has also been included in the operating budget in order to deal with capacity issues of the department of Technical Services.

- **Fines: R5.2 million, no increase projected (R0%)**

Fines are expected to remain the same in the 2017/18 financial year. The current trends indicate that no further increase should be effected on fines are the expected to remain the same in the 2017/18. Revenue to be generated from fines will depend on the number of fines issued and compliance of road users and others customers on road traffic legislation and other municipal bylaws respectively.

- **Interest on investments: R4.6 million, an increase of R600 117 (15%)**

Interest on investment is expected to generate R4.6 million to the operating revenue, from R4.0 million in the 2016/17 to R4.6 million in the 2017/18 financial year. The provision is based on the municipality's current investments and additional investments expected to be made in the 2017/18 financial year.

- **Interest on outstanding debtors: R12.5 million, increase of R822 533 (7%)**

Interest on outstanding debtors is expected to generate R12.5 million to the operating revenue, representing an increase of R822 533 from the 2017/18 adjustment budget (7%) based on rate at which other billable revenue sources has been increased. As per the approved Council policy, interest on outstanding debtors only applies to business or commercial consumers, as evidence has shown that domestic consumers do not afford to pay additional interest and are accordingly exempted in term of the policy.

- **Rental of facilities: R8.0 million, increase of R732 627 (10%)**

Revenue from rental of municipal facilities is expected to generate R8.0 million to the operating revenue, representing an increase of R732 627 (10%) from the 2016/17. While it is noted that such tariff increase is higher than inflation forecast of 6.4% reflected in MFMA Circular No. 86, however the operating and maintenance costs of municipal buildings and flats is higher than the revenue generated. The municipality is currently performing an analysis to see if disposing these facilities will not be in the best interest of Council. An investigation is also underway to assess the market value of the rentals currently levied on the municipal facilities.

- **Licences: R12 210, no increase expected (0%)**

Revenue from licences is expected to generate only R12 210 to the operating revenue. Due to the current performance, no increase is expected in the 2017/18 financial year.

- **Other revenue: R17.7 million, increase of R1.6 million (10%)**

Revenue from sundry revenue is expected to generate R17.7 million to the operating revenue, representing the increase of R1.6 million (10%) from the 2016/17 financial year. While it is noted that such tariff increase is higher than inflation forecast of 6.4% reflected in MFMA Circular No. 86, however the costs of providing such services is expected to be above the projected inflation rate of 6.4%. Items included under this revenue source include revenue from cemeteries, advertising, reconnections fees, proceeds on asset disposal, tender fees, pounding fees, rates clearance fees, etc.

OPERATIONAL EXPENDITURE

Total operating expenditure is projected at R1.824 billion in the 2017/18 financial, representing an decrease of R134.5 million (6.8%) million from the current year's adjustment budget of R1.958 billion. The municipality's expenditure for the 2017/18 budget is informed by:

- Relevant legislative imperatives,
- Expenditure limits set by realistic and realisable revenue levels,
- Modelling of feasible and sustainable budgets over the medium term,

- National and local economic and fiscal conditions,
- Legacy of carrying excessive expenditure, which was not ideally afforded by the municipality.

The major items of the operating expenditure for the 2017/18 financial year are as follows:

Details	2017/18 R'000	% of Total Budget
Bulk purchases	579 385	31,7%
Employee related costs	514 737	28,2%
Depreciation	247 895	13,6%
Debt impairment	101 507	5,5%
Other expenses	128 054	7,1%
Interest of loans	47 135	2,6%
Repairs and maintenance	45 190	2,5%
Remuneration of councillors.	23 219	1,2%
Contracted services	22 202	1,2%

The following are expenditure items included in the budget:

- **Employee Related Costs: R514.7 million, increase of R43.9 million (9.3%)**

Employee related costs have increased from R470.8 million to R514.7 million, representing an increase of R43.9 million. An annual salary increase of 7.4% has been projected for all employees, based on the SALGBC collective agreement on wage and salaries. In line with the National Treasury guideline, employee costs represent 28.3% of the total budget, which is still within the acceptable threshold. Furthermore, it will be noticed that the total increase on employee costs is 9.3%. The additional increase represents the budget for vacant critical posts, who have exited the system during the 2016/17 financial year.

Included in the employee related costs is an amount of R30 million for overtime. This constitute 5.8% of the employee related costs. The bulk of this provision relates to overtime for essential services which the municipality cannot avoid. These services include waste management, electricity maintenance, water maintenance and other essential services which the municipality is required to provide to communities. It will be noted that this provision has been reduced

substantially from the previous financial years due to measures implemented to monitor and curb overtime.

- **Remuneration of Councillors: R23.9 million, an increase of R2.1 million (10%)**

Remuneration of councillors is projected to be R23.9 million, representing an increase of R2.1 million (10%) from the 2016/17 adjustment budget. The projection is based on the 2016/17 notice of the upper limits issued by the MEC for Local government in December 2016, and an increase of 5% has been estimated in respect for 2017/18, which will be determined by the MEC for CoGTA at the beginning of 2018. This provision also is based on the expectation that EXCO councillors, Chief Chip and the chairperson of the section 79 committee may be approved as full time councillors in the 2017/18 financial year.

- **Repairs and maintenance: R45.1 million, a decrease of R19.6 million (3%)**

Expenditure on Repairs and Maintenance is projected at R45.1 million, representing a decrease of R19.6 million (3%) from 2016/17 financial year. It must further be noted that a municipality has budgeted R12 million for the roads resealing under capital budget, which was previously under operating budget. This amount also represents the rehabilitation of roads infrastructure. The decrease in the repairs and maintenance is mainly due to the reduction of expenditure budget, since the budget was crafted on the basis of affordability of revenue to be generated. While is noted that this provision is far below the norm of 8%, the municipality will however ensure that the available infrastructure is maintained within available budget. Strides will also be made to ensure that this provision is gradually increased other the MTREF period.

- **Bulk Purchases: R579.3, increase of R26.2 million (4.7%)**

Expenditure on bulk purchases is projected at R579.3 million, representing an increase of R26.2 million (4.7%) from the 2016/17 adjustment budget. This provision includes R494.5 million for the purchase of electricity from Eskom, R66.7 million for the purchase of bulk water from Uthukela Water, R15 million for raw water from the Department of Water Affairs, and R3 million for provision of water to Charlestown. Expenditure on Bulk Purchases of Electricity has been increased from R484.9 million to R494.5 million. While the NERSA guideline tariff increase is 0.31%, the additional increase is however based on the estimation of the 2016/17 full year forecast, which indicate that the municipality might have under-budgeted in the current year. A provision

of R15 million has been appropriated in respect of Bulk Water for the settlement of outstanding debt to Department of Water Affairs. An agreement has been reached that the amount will be settled over a period of three years.

- **uThukela Water Entity: R66.7 million, increase of R2.5 million (3.9%)**

The municipality's contribution to uThukela water increased from R64.2 million to R66.7 million which is an increase of R2.5 million (3.9%). Engagements have been held with the entity to encourage it to contain its costs of providing water to the municipality, which resulted in a reduction in the 2016/17 by R4 million.

Debt impairment: R101.5 million, an increase of R13.2 million (15%)

The municipal has projected to incur R101.5 million on debt impairment, representing an increase of R13.2 million from the 2016/17 adjustment budget of R88.2 million. The provision and the increase is based on the council's debtors' book, and the rate at which doubtful debt is expected to escalate. It must however be mentioned that the recent campaign to collect outstanding debtors and build the culture of payment of services in the townships might yield positive results, however its full impact is not yet quantifiable. The municipality will closely monitor this item, and if necessary, reduce it accordingly in the adjustment budget.

- **Depreciation: R247.8 million, a decrease of R121.6 million (32.9%)**

Provision for depreciation has been projected to be R247.8 million, representing a decrease of R121.6 million (23.9%) from the 2016/17 financial year. The provision is based on the municipality's asset register, however a reduction in depreciation is as a result of the National Treasury guidance in the treatment of the depreciation that has occurred as a result of revaluation of assets. According to NT Circular No.58, municipalities who have performed revaluation of their assets should substrate the depreciation of the revaluation, and only provide for depreciation at cost of such assets. The municipality performed revaluations of assets taken from Uthukela Water and all its infrastructure assets during the 2014/15 and 2015/16 financial years respectively, however such depreciation was never excluded from the budget provision previously.

- **Finance Charges: R47.1 million, a decrease of R3.2 million (6.3%)**

Expenditure on interest on loans is projected to be R47.1 million, representing a decrease of R3.2 million (6.3%) from the 2016/17 financial year. The finance charges of R47.1 million is based on the amortisation schedules of the loans portfolio of the municipality, which is expected to last for at least next nine years. It must however be noted no new loans will be taken by the municipality in the 2017/18 financial year.

- **Transfers and grants: R92.5 million, a decrease of R8.4 million (8.3%)**

Transfers and grants expenditure refers to the subsidy provided by the municipality to indigents. Provision for expenditure on indigent benefits is projected to be R92.5 million, representing a decrease of R8.4 million (8.3%) from the 2016/17 financial year. The municipality utilises its equitable share allocation to provide for such social benefit to consumers who cannot afford to pay for municipal services, and whose household earnings is below R3,500 per month. The decrease in the budget provision is mainly due to the municipality's decision to reduce the indigent benefit for water consumption from 12kl to 6kl as per the national standard. The municipality is also in the process of cleaning up its indigent register, which may see some of the consumers currently recorded as indigents being removed. The programme of water restrictors in the townships may further result in the identification of new indigents.

- **Collection fees: R5.7 million, a decrease of R2.8 million (3.2%)**

Expenditure on collection fees is projected at R5.7 million, representing a reduction of R2.8 million (3.2%) from the 2016/17 financial year. The contract with current debt collector is expected to come to an end in April 2018 and it is not the intention of the municipality to extend it further. Hence the reduction in the budget provision. The Budget and Treasury Office is currently building the internal capacity to handle this service and is confident that it will be fully functional in April 2018. The municipality will be working closely with the service provider to transfer skills and some of the resources during the period leading to the expiry of the contract.

- **Contracted services: R22.2 million, a decrease of R16.6 million (42.8%)**

Expenditure on contracted services is projected to be R22.2 million, representing a decrease of R16.6 million (42.8%) from the 2016/17 adjustment budget. The provision includes R5 million for the provision of security, and R17.2 for consultant fees. Given limited resources and strategies to build internal capacity, strides have been made to reduce these costs as far as possible. The amount provided for security is to prevent damage and loss in some of the key and major council facilities. The provision of consultant fees relate to those services for which independent technical expertise is required in order to comply with some of the legislation.

- **Materials: R3.9 million, an increase of R369 730 (10%)**

Expenditure on materials is projected at R3.9 million, representing an increase of R369 730 (10%) from the 2016/17 adjustment budget. Included under this items are materials for the cleaning of municipal buildings, halls, vegetation chemicals, cleansing material, pest control, etc.

- **‘Other expenditure: R191.7 million, a decrease of R70.5 million (26.8%)**

Other expenditure is projected to be R191.7 million, representing a decrease of R70.5 million (26.8%) from the 2016/17 adjustment budget. The reduction is informed by available resources and the affordability principle, as the budget was income-based. Further reductions in the budget are in terms of NT MFMA Circular 82 regarding cost containment measures, and the strides to implement austerity measure in line with the view of the national government. This reduction is an intervention by the council to improve the cash position of the municipality by ensuring that unnecessary expenditure is avoided but at the same time, service delivery is not compromised.

Some of the major items included under general expenses comprise of SALGA membership fees, departmental charges, telephone, insurance expense, printing and stationery, transport and machinery costs, plant hire, purchase of plastic bags, protective clothing, rental of municipal facilities, gravelling of roads, interns and skills development, training, valuation expenses, ward committee fees, audit fees, bank charges, EPWP programme and legal fees.

OPERATING SURPLUS/DEFICIT

The operational budget therefore yields an operating deficit of R74.2 million. It remains the commitment of the municipality to comply with MFMA Circular No.72, which encourages

municipalities to adopt a surplus position over the MTREF with a view to achieve and maintain financial stability of the municipality. It will be noted that the deficit has reduced by almost R201.0 million from the deficit of 282.4 million in the current year. Having analysed this deficit position against the fundability of the operating budget, the municipality concludes that the deficit is mainly due to the provision for Debt Impairment, depreciation. In eliminating this expenditure items and applying reliable revenue collection rates, the operating budget is said to be fully funded when analysed in terms of the NT MFMA Circular No.52.

CAPITAL BUDGET

The municipality's capital budget is projected to be R253.7 million, consisting of R235.7 million to be funded from government grants, and R18 million to be funded from internally generated funds.

The summary of the capital budget over the medium terms is depicted as follows

Details	2017/18 R'000	2018/19 R'000	2019/20 R'000
Total Capital Budget	253 778	254 998	268 168
<u>Funded as follows:</u>			
Grant funding	235 704	215 998	227 168
Internal funding	18 074	39 000	41 000
	253 778	253 998	268 168

Government grants are budgeted to continue to fund the bulk of capital budget over the next three financial years, covering 93% in the 2017/18 financial year. Due to the current cash flow position, the municipality has no plans to take new loans.

Renewal of existing assets

The municipality will spend less than 40% of the capital budget towards the renewal of existing assets. This is done with a view to ensure that existing assets and infrastructure are refurbished and upgraded to the right level to maintain delivery of acceptable minimum services to communities. While the municipality is aware that this provision is still below 40% recommended

by MFMA Circular No.70, the municipality is however committed to keep increasing this provision in the near future in order to achieve a 40% as recommended by the National Treasury. The following is the list of capital projects which will be implemented over the medium term:

PROJECT DESCRIPTION	SOURCE OF FUNDING	2017/18 R'000	2018/19 R'000	2019/20 R'000
FURNITURE & EQUIPMENT	INTERNAL FUNDS	1 000	1 000	1 000
PA SYSTEM	INTERNAL FUNDS	2 700		
RESEALING OF ROADS - NEWCASTLE WEST	INTERNAL FUNDS	6 000	14 000	16 000
RESEALING OF ROADS - MADADENI	INTERNAL FUNDS	2 000	8 000	8 000
RESEALING OF ROADS - OSIZWENI	INTERNAL FUNDS	2 000	8 000	8 000
RESEALING OF ROADS - KILBARCHAN	INTERNAL FUNDS	1 000	4 000	4 000
RESEALING OF ROADS - CHARLESTOWN	INTERNAL FUNDS	1 000	4 000	4 000
PANORAMA STORMWATER	INTERNAL FUNDS	2 374		
CONSTRUCTION OF CHARLESTOWN LIBRARY	PROVINCIAL GRANT	11 000	10 000	
REFURBISHMENT AND EXTENSION OF NEWCASTLE LIBRARY	PROVINCIAL GRANT	5 425		
REPLICA RAILWAY STATION	MUSEUM GRANT	280		
JBC to Osizweni Secondary Link Road Phase 2 House relocations	NDPG	1 000		
Madadeni Secondary Link Road	NDPG	29 124		
JBC to Osizweni Secondary Link Road Phase 2	NDPG	15 000		
JBC Urban Hub Informal Trading Stalls	NDPG	4 875		
Provision of Services at JBC Urban Hub	NDPG		25 000	25 000
Ingogo Fresh Produce Market	COGTA	145		
Building of New Infrastructure (AIRPORT/TECHNO HU)	TREASURY	6 400		
Furnisher & Equipment	LEVEL 2 ACCREDITATION	250		
MF55	MIG	2 633	3 000	
MD35	MIG	2 825	4 000	
MD30	MIG	1 175	1 000	
ME11 (A)	MIG	4 815	-	
ME11 (B)	MIG	2 935	2 000	
OE41	MIG	2 690	1 000	
OA85 (A)	MIG	4 368	-	
OA85 (B)	MIG	2 883	2 000	
OC20	MIG	2 365	2 000	

OA103	MIG	2 928	2 000	
MB7	MIG	-	-	8 500
MD5	MIG	-	3 000	-
MF 18 & MF19	MIG	-	4 000	3 000
MB23	MIG	-	-	8 568
MG3 & MG4	MIG	-	-	7 000
OA36	MIG	-	3 000	4 000
OB11,6	MIG	-	1 398	5 000
OC25, OC53	MIG	-	-	8 000
OD17, OD21	MIG	-	-	6 000
WCDM MADADENI	MIG	-	6 500	-
MADADENI WWTP	MIG	20 000	20 000	20 000
UPGRADE OF NGAGANE WWTW PHASE1	MIG	15 000	20 000	15 000
BASIC SANITATION SERVICES NORMANDIEN	MIG	700	700	700
BASIC SANITATION SERVICES INGOGO	MIG	700	700	700
BASIC SANITATION SERVICES CHARLESTOWN	MIG	700	700	700
BLAAUWBOSCH BULK WATER PROJECT	MIG	15 000	18 000	10 000
PIPE REPLACEMENT AND UPGRADE PROJECT	MIG	7 489	20 000	25 000
OSIZWENI E AND F	MIG	9 000	-	-
NGAGANE BULK WATER SUPPLY PROJECT	MIG	10 000	-	-
WCDM OSIZWENI	MWIG	10 000	15 000	10 000
NEWCASTLE EAST WATER SUPPLY EXTENSION	MWIG	35 000	35 000	25 000
UPGRADE AND REFURBISHMENT OF PUMPSTATIONS	MWIG	-	5 000	25 000
SIYAHLALA LA ELECTRIFICATION	INEP	9 000	10 000	20 000
		253 778	253 998	268 168

CASH FLOW MANAGEMENT

The municipality is required to ensure that its budget will be able to fund both the operating and capital budget by ensuring that it has adequate funds. The cash flow budget assesses the cash flows of the municipality and whether these will be adequate to fund both operating and capital budgets in the ensuing financial year and medium term. Based on the projected collection rates, the municipality is confident that it will generate receipts of R1.484 billion from operating

revenue. Operating expenditure is expected to result in cash payments of R1.747 billion, which will result in the operating cash surplus of R10 million. The municipality is further projecting to collect R3.5 million per month from arrear debtors and about R33 million from Vat refunds. The cash surplus generated from operating activities, capital grant receipts, collections from arrear debtors and Vat refunds will be used by the municipality to fund the capital budget and capital porting of the external loan. The budget is therefore considered to be funded.

1.4 BUDGET TABLES AND RELATED CHARTS

As attached in Annexure C - Schedule A tables

2.1 OVERVIEW OF BUDGET PROCESS**2.1.1 OVERVIEW**

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The budget process is an effective process that every local government must undertake to ensure good governance and accountability. The process outlines the current and future direction that the municipality would follow in order to meet legislative stipulations. The budget process enables the municipality to optimally involve residents and other stakeholders in the budgeting process.

The budget preparation process is guided by the following legislative requirements:

- Municipal Finance Management Act;
- Municipal Budget and Reporting Regulations;
- Municipal Systems Act; and
- Municipal Structures Act.

Section 21 of the MFMA requires that a time schedule setting out the process to draft the IDP and prepare the budget be tabled ten months before the financial year. In compliance with this requirement the IDP and budget time schedule was tabled before council in September due to the new council inauguration. The main aim of the timetable is to ensure integration between the Integrated Development Plan, the budget and allied process towards tabling a balanced budget. The adoption of the 2016/17 Medium Term Budget for the Newcastle Municipality on May 2016 laid the foundation by which strategic functions within the municipality could apply sound financial planning and management over the medium to long term. It facilitated the critical alignment of planning, budgeting and sustainable service delivery in line with Newcastle's vision.

The purpose of the 2017/18 budget is to comply with the Municipal Finance Management Act (No. 56 of 2003) and is a financial plan to enable the municipality to achieve its vision and mission through the IDP which is informed by our five year programme and community/stakeholder inputs. The tabled budget is the start of a journey towards the final budget for approval. It will include many processes both politically and administratively, amongst others, consultations with communities in the municipal area. In February 2017 budget instructions were

issued to departments by the Budget and Treasury Office. Staff budget requirements were also reviewed for budgetary purposes with an intense scrutiny of human resources needs and assessment of all vacancies.

A budget workshop was held during March 2017 which focused on the state of financial affairs, limited resources and how the budget will be allocated to departments. The workshop further dealt with past performance trends of operating budget and capital budget, identified budget realities going forward and set the criteria and basis to be used in the appropriation of financial resources amongst municipality's functions during the budget process. Budget meetings were also held with various departments. At these meetings, budget strategy, budget policies and the alignment of the operating budget with the IDP were discussed. The IDP's strategic focus areas informed the development of the budget, in addition to assessing the relative capacity to implement the budget, taking affordability considerations into account.

Further deliberations were held on the budget with a view to assessing the budget and reducing the deficit in order to ensure that the increases in rates and tariffs to balance the budget were restricted to an acceptable level. In order to address the initial budget deficit and ensure reasonable levels of tariffs and also to conform to National Treasury cost containment guidelines, austerity measures have been applied to the 2017/18 medium term budget. In March 2017 budget presentations were held with the Municipal Manager and Executive committee. The mechanism through which the needs of the municipality are identified and priorities set is the Integrated Development Plan (IDP). The capital budget is then accordingly allocated to cover the higher priority projects in the IDP. A series of meetings were held to ensure that the budget is prioritized, balanced and aligned to Council's IDP.

2.1.2 POLITICAL OVERSIGHT OF THE BUDGET PROCESS

The key to strengthening the link between priorities and spending plans lies in enhancing political oversight of the budget process. Strengthening the link between Government's priorities and spending plans is not an end in itself, but the goal should be enhanced service delivery aimed at improving the quality of life for all people within the municipality. Section 53(1) (a) of the MFMA, states that, the mayor of a municipality must provide political guidance over the budget process and the priorities that must guide the preparation of the budget. The Management Committee and the Executive Committee advise Council accordingly. Political oversight of the

budget process allows government, and in particular, the municipality to manage the tension between competing policy priorities and fiscal realities.

2.1.3 PROCESS FOR CONSULTATIONS WITH EACH GROUP OF STAKEHOLDERS AND OUTCOMES

Local government policy and legislation put great emphasis on municipalities developing a culture of community participation and the creation of appropriate and relevant community participation mechanisms, processes and procedures. The municipality prides itself of enjoying the reputation of actively engaging many of its citizens as possible in its planning, budgeting, implementation and monitoring processes. In order to strengthen public participation, the municipality has been rolling out its outreach programme to all wards in the municipal area, during the year.

Accordingly, the tabling of the draft Budget in council will be followed by extensive publication of the budget documentation in the local newspapers, libraries, and all municipal public areas. Copies of the tabled budget in both electronic and printed formats will be submitted to National Treasury as well as the KwaZulu-Natal Provincial Treasury and the Provincial Department of Co-operative Governance and Traditional Affairs. The tabled budget will also be published on the council's website. In terms of the Municipal Systems Act and in conjunction with the Municipal Finance Management Act, hearings on the budgets were held during April and May 2017 in various wards in the Newcastle Municipality jurisdiction. Other key target groups for the budget hearings will include:

- Newcastle Business Chamber;
- Farmers Association; and
- KZN Provincial Treasury

A schedule indicating dates and venues was be publicized in the local Newcastle papers and municipal notice board during the first week of April 2017.

2.1.4 SCHEDULE OF KEY DEADLINES RELATING TO THE BUDGET PROCESS

The budget time schedule for the compilation of the 2017/18 budget cycle was tabled in September 2016, well before the start of the budget year and in compliance with the MFMA. The plan was accordingly implemented and reviewed where considered necessary to do so.

The following table reflect the activities and key deadlines that were included in the schedule.

DATE	ACTIVITY	RESPONSIBILITY
August 2016	<ul style="list-style-type: none"> 10 months before start of the budget year: Tabling of time schedule outlining key deadlines to the municipal Council as per MFMA S21(b). Advertising of budget and IDP time schedule. 	Mayor/MM
September 2016	Conclude initial consultation and review policies, confirm priorities, identify other financial and non-financial parameters including government allocations, and the financial outlook in order to needs and to review fiscal strategies.	MM/CFO
October 2016	Meeting with Mayor, Exco and Manco to discuss the strategic direction and objectives for the 2017/18 fiscal strategies.	MM/BTO
October 2016	Budget Framework. Meeting the SED's to discuss the budget preparation process of the budget framework to provide parameters and request budget inputs for 2017/2018.	BTO
November 2016	Completion of Salary Budget and assess impact on tariffs and charges.	BTO/HR
December 2016	<ul style="list-style-type: none"> Finalize inputs from bulk resource providers (NERSA, uThukela) and agree on proposed price increase. Submit all Budget related policies for review. Prepare guidelines and template for compilation of draft budget three year operational and capital budget. 	BTO
January 2017	<ul style="list-style-type: none"> Finalize detailed operational and capital budget, finalize all budget related policies. Review the proposed National and Provincial allocations for incorporation into the draft budget. Report back on progress with Budget inputs. 	BTO/MANCO
February 2017	<ul style="list-style-type: none"> Submission of Budget Inputs: Final date for SED's to submit departmental budget inputs. Proposed Capital Projects from IDP. Accounting Officer finalises and submits to the Mayor the proposed budgets and plans for the next three-year budgets taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous years audited financial statements and annual report. Compile a discussion document from inputs and submit to EXCO and MANCO. 	MM/BTO/SED'S
February 2017	Budget/IDP Strategic Workshop	Extended MANCO and EXCO
March 2017	Budget Workshop: Discussion of budget inputs, link capital and operational plans to IDP and determine proposed tariffs.	EXCO MANCO
March 2017	Draft Budget: <ul style="list-style-type: none"> 90 days before the start of the budget year, Council must consider approval of the draft budget. Submit the draft multi-term operational and capital budget and all budget related policies for approval. 	MAYOR, MM, CFO

DATE	ACTIVITY	RESPONSIBILITY
	<ul style="list-style-type: none"> Submission of approved budget both printed and electronically to COGTA, National and Provincial Treasury. Make public notice in terms of S22, 75 of the MFMA and 21A of the Municipal Systems Act. 	
April 2017	<p>Public Consultation Process: Public Consultation on draft budget throughout the municipality in terms of Chapter 4 of the Municipal Systems Act.</p>	MAYOR EXCO MM CFO
May 2017	<p>Respond to Public Comments in terms of S23 of the MFMA.</p> <ul style="list-style-type: none"> Response to public comments and sector comments. Incorporate recommendations into draft budget. Bilateral engagement with Provincial Treasury. 	MAYOR BTO MM
May 2017	<p>Approval of Final Budget – MFMA S24.</p> <ul style="list-style-type: none"> Approve the final multi-term operational and capital budget together with the adoption of resolutions that may be necessary. 	COUNCIL
June 2017	<p>Publication of Annual Budget.</p> <ul style="list-style-type: none"> Submission of the approved budget printed and electronically to COGTA, National and Provincial Treasury, S22(b). Make public notice in terms of S22(a), 75 of the MFMA and 21A of the Municipal Systems Act. Capture the approved budget on to the financial system. Submission of locking certificate in terms of S74(1) of the MFMA. 	MM BTO
June 2017	<p>Compile SDBIP Compilation of the service delivery and budget implementation plan (SDBIP) 28 days after the approval of the budget and submit to Council for approval.</p>	PMS MAYOR MM

2.2. OVERVIEW ALIGNEMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The municipality's Integrated Development Plan (IDP) is its principal strategic planning instrument, which guides and informs its on-going planning, management and development actions. The IDP represents the municipality's administration's commitment to exercise its executive authority (except in cases where it is in conflict with national or provincial legislation, in which case such legislation prevails), and is effectively the local government's blueprint by which it strives to realise its vision for Newcastle in the short, medium and long term. However, while the IDP represents the strategic intent of the municipality, it is also compiled with the understanding that a number of challenges will need to be overcome in order to achieve the strategic objectives it sets out. Some of these challenges are known, while others are as yet unknown and may arise at any time due to any number of local, national and international economic, political or social events.

2.2.1 KEY NATIONAL AND PROVINCIAL GUIDING DOCUMENTS

To ensure that the municipality is a more responsive, efficient, effective and accountable local government, we will outline, precisely how we intend to translate our long term 2035 Municipality Vision into an effective plan that aligns the municipal budgets, monitoring and evaluating mechanisms as well as timeframes for delivery. The municipality has taken the strategic direction to achieve closer alignment between the Long Term Development objectives and its IDP. The development of the strategic approach for the municipality is guided by – but not limited to – the following;

National Development Plan (Vision 2030)

The intention of this plan is to improve service delivery for citizens of South Africa, whilst integrating national, provincial and local policies and programmes into a single, target orientated and long term based plan. In this plan a collective approach of improving the lives of the citizens is applied, and communities themselves have a role to play in this regard. The Spatial component of the NDP which is the Integrated Urban Development Framework provides a macro spatial context for urban development at a national level.

Delivery Agreement Outcome 9

The aim of Delivery Agreement: Outcome 9 is to ensure a responsive, accountable, effective and efficient local government system so as to restore the confidence of citizens in the local government sphere. As such municipalities need to ensure that the basic needs of communities are met; build clean, effective, efficient, responsive and accountable local government; improve performance and professionalism and strengthen partnerships between local government, communities and civil society. Whilst primarily there is a reporting line to Outcome 9, the municipality also reports on Outcome 8 which concentrates on human settlements.

National Priorities: SONA (State of the Nations Address 2017)

The State of the Nation address for the 2017 confirmed the President's commitment to the Nine Point plan to ignite radical economic transformation, growth and create jobs, these plans. It becomes imperative that the IDP and the Budget of the municipality are align to the national vision and plans of both national and provincial governments in order to achieve the objectives of the NDP. These plans as highlighted in the SONA 2017 are as follows:

- Placing the economy at a centre stage to fight poverty and unemployment
- Afford mining sector more attention to convert or upgrade hostels into family units, and facilitate homeowner options for mine workers;
- Provide prominence renewable energy by taking advance of wind, solar, biomass and other technologies that increase the opportunity for rural development;
- Scale up infrastructure through the implementation of the National Infrastructure Plan;
- Prioritise youth employment and empowerment in consistence with the Youth Employment Accord
- Labour relations to take the centre agenda on issues of minimum wage in order to reduce income inequality
- Engage business community to achieve inclusive growth and prosperous society
- Provide support to Small Business for the next five years using the SMME development programme;
- Eradicate the bucket system using the Inter-ministerial Team of Service Delivery.
- Prioritise EPWP which provides work opportunities and training for the unemployed;
- Provide support to the Local Government to provide water and sanitation to communities;
- Provide support to smallholder farmers through acceleration of land reform and technical, infrastructural and financial support;

- Attract tourism to more than R15 million annually with a view to increase tourism revenue to more than R125 billion
- Increase university entrance through the review of NSFAS policies;
- Advance women empowerment and development and people with disabilities;
- Combat and reduce levels of crime through effective crime authorities.

Towards an Integrated Urban Development Framework

A key objective of government is to facilitate economic growth, job creation and reduce poverty and income inequality. The framework for integrated urban development is a key governmental initiative to realise this objective because it leverages the potential of our cities and towns, which are South Africa's engines of growth and job creation. Urban areas offer the advantages of economic concentration, connectivity to global markets, the availability of new technologies and the reality of knowledge economies. Given the challenges that urban areas face, there is a need to forge a sustainable growth vision for our urban and rural spaces that will guide our development priorities and choices. As such the framework begins to identify key levers.

Provincial Priorities (State of the Province Address)

The Premier highlighted Key intervention areas for the province that would influence the IDP for municipalities. In the SOPA the alignment of the IDP, PGDS and the NDP were stressed. In the speech the Premier listed the priority Interventions which remain the foundation of the Provincial Growth and Development Plan. The Interventions are:

- Revitalization of the agriculture and agro-processing value chain
- Implementation of a Higher Impact Industrial Policy Action Plan
- Advancing Beneficiation (adding value to mineral wealth)
- Unlocking potential of the SMME sector, co-operatives, townships and rural enterprises
- Growing the oceans economy
- Resolving the energy challenge
- Managing works place conflict
- Scaling up private sector participation
- Cross cutting relating to IT, Transport, Science and Technology

The Premier also stressed on the development and protection of human capital and the need to further develop skills and improve education in the province.

Provincial Growth and Development Strategy

In line with the National vision 2030, the Provincial Growth and developmental Strategy will ensure economic growth and improved quality of life in KwaZulu-Natal. An integrated service delivery mechanism will be applied by various stakeholders in an effort to create employment opportunities, skills enhancement, effective and efficient governance, human and community development, improved infrastructure and adequate utilization of spatial form. The PGDS is currently under review to ensure that the plan meets the objectives of the National Planning Commission as well as the SDG's.

Long Term Development Framework

Many town and cities around the world are competing with one another on the local global open market to become economically competitive and in doing so, are inadvertently creating unsustainable environments. Against this background then, it is clear that the municipality has indeed a direct role to play in the facilitation and management of long-term planning and development processes that consider the issue of sustainability.

2.2.2 DEVELOPMENT CHALLENGES

Significant strides have been made to address the key development challenges in the municipality. While significant progress has been made in all areas, there is still some distance to go towards addressing the following challenges:

- High rates of unemployment and low economic growth;
- High levels of poverty;
- Low levels of skills development and literacy;
- Limited access to basic household and community services;
- Increased incidents of HIV/AIDS and communicable diseases;
- Unsustainable developmental practises;
- Ensuring adequate energy and water supply;
- Infrastructure degradation;
- Ensuring financial sustainability;
- Ineffectiveness and inefficiency of inward-looking local government still prevalent in the municipality.

The essence of the Newcastle Municipality's IDP is to achieve a balance between meeting basic needs, strengthening the economy and developing people skills and a technology base for the future.

2.2.3 MUNICIPAL STRATEGIC PRIORITY AREAS

In order to achieve our vision and to address the development challenges, there are a number of key strategic priority areas which need to be taken into consideration. These priorities lead to the creation of structures which support, house and associate other actions and activities – the building blocks around which actions and prioritisation take place. It also acts as a point of leverage for creating a sustainable municipality that is caring and liveable.

2.2.4 POLITICAL PRIORITIES AND LINKAGES TO THE IDP

The IDP is an all-encompassing plan which provides the framework for development within a municipality. It aims to co-ordinate the work of local and other spheres of government in coherent plans to improve the quality of life for all the people living in the area. All operating and capital programs in the 2017/18 medium-term budget have been assessed through a prioritisation mechanism that was developed to ensure that there is alignment to the development strategy of the municipality. The IDP formed the basis of the priorities identified in the strategic plan and all resources are focused on the achievement of the priorities. The Mayor, Ward councillors, ward committees, and the full council full an active part in the community based planning and ensuring that budget takes to the priorities of the IDP.

2.2.5 IDP OVERVIEW

The Municipal Systems Act requires that each Municipality prepare an Integrated Development Plan to serve as a tool for transforming local governments towards facilitation and management of development within their areas of jurisdiction. The IDP is a five year plan whose principal purpose is to ensure the development of the local community in an integrated manner which involves strategic business units within the municipality, relevant strategic stakeholders and the community. This draft IDP marks the new 4th generation of the five years period of the new Council which occupied office in August 2016.

2.2.6 IDP PROCESS AND STAKEHOLDER PARTICIPATION

The IDP is prepared every five years and reviewed yearly to inculcate a democratic approach to local governance by ensuring all stakeholders get an opportunity to voice their opinions in influencing the shape, form, direction and pace of development in their localities. The municipality is committed to addressing the needs of the people and values the inputs from communities and stakeholders. The IDP draft process plan for 2017/2018 was presented to the Executive Committee and its included in the draft IDP for consideration. The plan specified timeframes, actions and procedures and appropriate mechanisms for public participation and alignment.

The fourth generation of Newcastle's Integrated Development Plan (IDP) has been initiated and seeks to address community needs and how the municipality will achieve same over the next five years. As set out in the Municipal Systems Act (2000), a stakeholder consultation process is necessary. Of critical importance is for the municipality to ensure that there is thorough consultation with the community and strategic stakeholders. The development of the new five year plan in 2017/18 has provided further opportunity for the citizens to actively participate in the development of the IDP.

2.2.7 LINK BETWEEN THE IDP AND THE BUDGET

In compliance with the Municipal Structures Act (1998) and Municipal Financial Management Act (2003), our municipal budget is informed and aligned to the IDP objectives. The IDP determines and prioritises the needs of the community. The budgetary allocations for both the capital and operating expenditure are undertaken in a manner that will not only ensure that our IDP outcomes are achieved but also to ensure that our municipality's 2035 vision is realised. *The 2017/18 Annual Budget has therefore, been directly informed by the new 4th generation IDP process.*

We have come a long way in capital budgeting – away from departmental budgeting. Based on such nationally developed models, the municipality is able to link its budget with its programmes, and is able to adequately spread its capital budget geographically as well in accordance with the IDP. In terms of the operating budget we have made excellent progress but are now more committed than ever to ensure that critical operating budget resources are prioritised in terms of stated IDP outcomes. More importantly, the Performance Management System (PMS) allows the municipality an opportunity to monitor and evaluate organisational performance in meeting our

IDP outcomes and vision. As with previous year's, our IDP remains the strategic driver of both our budget and performance management system.

2.3. MEASURABLE PERFORMANCE OBJECTIVES

2.3.1 KEY FINANCIAL RATIOS / INDICATORS

The benchmarks reflected in the table below are based on the actual audited results of the municipality for the 2015/16 financial year:

Financial Benchmark	Basis of calculation	2015/16
Debt to Asset Ratio	Total debt / Total Assets	0,57 : 1
Debt to Revenue	Total debt / Total Income	0,29 : 1
Average Interest Paid on Debt	Interest Paid / Total Interest Bearing Debt	0,14 : 1
Capital Charges to Operating Expenditure	Interest and Principal Paid / Operating Expenditure	0,03 : 1
Interest as a % of Operating Expenditure	Interest Paid / Operating Expenditure	2,8%
Current Ratio	Current Assets / Current Liabilities	1,2 : 1
Creditors System Efficiency	% of Creditors paid within terms	74,0%
Electricity Distribution Losses	Total units purchased less units sold / Total units purchased	7,8%
Water Distribution Losses	Total units purchased less units sold / Total units purchased	47,3%

The financial benchmarks reflected in the table indicate a favourable financial state, however, one needs to indicate that the bulk of assets of the municipality include Property Plant and Equipment, as well as consumer debtors, which the municipality is struggling to convert into liquid cash.

Debt to Asset Ratio:

The ratio indicate the leverage ratio that defines the total amount of debt to assets.

Debt to Revenue:

The ratio indicate the extent of total borrowings in relation to total operating revenue. The purpose of to provide assurance that sufficient revenue will be generated to repay liabilities.

Capital charges to Operating Expenditure:

Capital charges to operating expenditure (the measure of cost of borrowing in relation to the operating expenditure) compares favourably to the acceptable norm of around 100%.

Current ratio:

This ratio measures the short-term liquidity, that is, the extent to which the current liabilities can be paid from the current assets. The higher the ratio, the healthier is the situation. Whilst the ratio of 1.2 : 1 is below the norm of 1.5 : 1 to 2.1 normally set for municipalities, the municipality faced cash-flow challenges due to its inability to collect its consumer debtors, which is the main contributor of current assets.

2.3.2 FREE AND SUBSIDISED BASIC SERVICES

Municipalities play central role in supporting economic development and alleviating poverty. The provision of basic services is a critical input to social well-being and economic activity. Newcastle Municipality comprises both rural and urban areas as well as wide spread of income groups. Due to variation in living environment, the municipal area has a number of households who currently do not have access to all services.

The basic social package is an affirmation of the municipality's commitment to push back the frontiers of poverty by providing a social welfare to those residents who cannot afford to pay, because of adverse social and economic realities. The social package will also assist the municipality in meeting its constitutional obligations. The estimated cost of social package amounts to R92.5 million for the 2017/18 budget year.

Details of initiatives carried out by Newcastle Council in this regard are detailed below:

Service	Social Package	Million (R)
Assessment Rates	All residential property owners are exempt from paying rates on the first R15,000 of the property value. Indigent residents will receive 100% rebates on rates.	25.1
Water	The first 6kl of water is free to all residents qualified as indigents in terms of the policy	29.3
Electricity	The first 50kwh of electricity is free to all residents qualified as indigents in terms of the policy	5.3
Refuse	Refuse is free to all residents qualified as indigents in terms of the policy	15.2
Sewer	Sewer is free to all residents qualified as indigents in terms of the policy	17.6
Indigent Support		92.5

The cost of indigent benefit to the tune of R92.5 million is funded from the equitable share provided by the National Government, which amount is based on the estimated ±19000 number of indigents currently in the Indigent Register. The assistance to the qualifying households is regulated by Council budget related policies which are reviewed annually based on modelling the impacts of the tariffs on all residential properties.

2.4 OVERVIEW OF BUDGET RELATED POLICIES

The MFMA and the Municipal Budget and Reporting Regulations require budget related policies to be reviewed, and where applicable, to be updated on an annual basis. The main purpose of budget related policies is to govern and guide the budget process and inform the projections of the medium term budget.

2.4.1 APPROVED POLICIES

The following budget-related policies has been approved by Council and no amendments have been done:

- Budget Policy
- Petty Cash Policy
- Borrowing Policy

2.4.2 DRAFT POLICY AND POLICIES REVIEWD

The following policies have been amended and/or reviewed and attached with the budget for consideration.

- Supply Chain Management Policy
- Indigent Policy
- Debt Write-off Policy
- Cash and Investment Management Policy
- Virement Policy
- Funding and Reserves Policy
- Asset Management Policy
- Loss Control Policy
- Short-term Insurance Policy

2.4.3 RATES POLICY

As required in terms of section 5 of the MPRA, the Rates Policy has been reviewed for the 2017/18 financial year. The policy is to be amended with the current budget prior to implementation.

2.4.4 CREDIT CONTROL AND DEBT COLLECTION POLICY

The primary objective of the policy is to ensure that all monies due and payable to the municipality in respect of services are collected efficiently and promptly. As required in terms of sections 97 of the Municipal Systems Act, the credit control and debt collection policy for the 2017/18 financial year has been reviewed and is to be adopted with the current budget.

2.4.5 TARIFF POLICY

The Municipal Systems Act requires a municipality to have a Tariff Policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery, and which complies with the provisions of that Act, the MFMA and other legislation. Accordingly, a Tariff Policy which is attached with the budget for Council adoption.

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

Budget assumptions and parameters are determined in advance of the budget process to allow budgets to be constructed to support achievement of the long-term financial and strategic targets. The assumptions and principles applied in the development of this budget are mainly based upon the guidelines from National Treasury and other external bodies such as NERSA, SALGA and the major service providers. A number of assumptions that guide growth parameters have been built around the projected increase in the inflation (CPI), being 6.4% for the 2017/18 financial year.

The municipal fiscal environment is influenced by a variety of macroeconomic control measures. National Treasury determine the ceiling of year-on-year increases in the total operating budget, whilst NERSA regulates electricity tariff increases. Various government departments also effect municipal service delivery through the level of grants and subsidies.

The following key assumptions underpinned the preparation of the medium term budget. Revenue are projected to increase by the following percentages:

Revenue source	2017/18	2018/19	2019/20
Property rates	7%	7%	7%
Electricity	1.88%	8%	8%
Water	7%	7%	7%
Sanitation	7%	7%	7%
Waste/Refuse	7%	7%	7%
General Sources of Revenue	10%	10%	10%

The projected increases in the expenditure items are as follows:

Revenue source	2017/18	2018/19	2019/20
Employee related costs	7.4%	7%	7%
Remuneration of councillors	5%	5%	5%
Electricity budget purchases	0.31%	8%	8%

The increase in employee related costs will be confirmed by the South African Local Government Bargaining Council before the end of the 2016/17 financial year. The increases in the upper limits of councillors will be confirmed by the MEC for Local Government probably during December 2017. The final electricity tariff and bulk purchases will be confirmed by NERSA in April 2017. Where there are significant changes from what is been projected, the municipality may consider tabling an adjustment budget or accordingly correct in the final budget.

Expenditure in respect of repairs and maintenance, contracted services and general expenses has been zero-based but limited to the available funding. While it is acknowledged that the costs of providing such goods and services may be more or less than what is projected, the municipality will however employ stringent budget monitoring and control measures to ensure that the municipality operates with the approved budget on these items.

CAPITAL EXPENDITURE

The municipality's capital expenditure has been funded from a mix of government transfers and internally generated funds. About R235 million is funded from government grants and the balance of R18 million from internally generated funds. Based on the previous information and analysis, it is assumed that all grants appropriated in the medium term budget will be made available by the National and Provincial governments. Where any grants are withheld or additional grants made available during the budget year, such will be addressed by way of an adjustment budget.

2.6 OVERVIEW OF FUNDING THE BUDGET

FISCAL OVERVIEW

Although the financial profile of the municipality is not healthy and liquid due to commitments from the previous financial years, the municipality has ensured that realistic revenues and affordable expenditure is projected in the medium term budget. This has been achieved through the following measures:

- Funded budget to be generated during the budget and the MTREF period. Currently no reserves are available to supplement funding of both operating and capital budgets.
- Measures will be ensured that the municipality operates within the budget as approved by Council. There is no intention to incur unauthorised expenditure.
- The municipal will ensure that it strives to develop and maintain a positive cash and investment position (cash and cash equivalents).

FUNDING OF CAPITAL BUDGET

The capital budget is funded mainly by allocations made to the municipality by National and Provincial government in the form of grants, as well a minor portion of internally funded funds. No external loans will be taken by the municipality to fund its capital programme. Furthermore, no reserves are available or earmarked for the purpose of funding the capital budget.

The municipality has provided R235.7 million from grant receipts to fund the capital budget, both from National and Provincial Governments. This amount is made up of MIG, MWIG, NDPG, Electrification Grant as well as provincial allocation from the Departments of Arts and Culture and Treasury. R18 million worth of projects will be funded from internal funds to be generated through Vat refunded on conditional grants as per Circular 58 of the MFMA.

FUNDING OF OPERATING BUDGET

Funding of operating budget is obtained through various sources, the major ones being service charges of electricity, water, sanitation, refuse, property rates as well as grants and subsidies from National and Provincial governments.

The municipality is expecting to generate R693.6 million, R172.7 million, R110.0 million, R89.2 million and R283.2 million from the sale of electricity, water, sanitation, refuse removal and property rates respectively. These revenue sources are regarded as primary sources of revenue of the municipality and contribute about R1.3 billion to the projected revenue of the municipality, which represents 77% of the total revenue. Grants and subsidies will contribute R345.7 million to the operating revenue, which is 20% of the total revenue. It can therefore be concluded that the operating budget of the municipality will be funded mainly by property rates, services charges and grant allocations.

Fines will generate R5.2 million to the total revenue of the municipality. This is based on the previous trends of fines that the municipality has been able to issue in the past three years. Interest on external investment is expected to generate R4.6 million based on the current investment portfolio, as well as the new investment the municipality is expecting to make during the MTREF period. About R12.5 million will be generated from interest on outstanding debtors, based on the current rate at which debtors are escalating. The municipality will generate R8.0 million from rental its facilities, mainly municipal flats and houses to its employees. About R17.7 million will be generated from sundry revenue of the municipality. This include revenue from all other services of the municipality which are not billed. The fines, interest on investments, interest on outstanding debtors, rental and sundry revenue contribute R48.1 million, representing about 3% of the total revenue.

COLLECTION RATES FOR EACH REVENUE SOURCE

In accordance with the relevant legislation and national directives, the municipality's projected revenue collection rates as based on realistic and sustainable trends. The rate of revenue collection is the cash collected from consumers expressed as the percentage of the amount billed.

The average monthly collection rate and projections for the year are as follows:

Revenue Source	Average 2016/17	Average 2017/18
Property rates	72,0%	75,0%
Electricity	94,5%	95,0%
Water	56,5%	61,0%
Sewer	49,3%	55,0%
Refuse	69,2%	75,0%

The total average collection rate is projected at an average of at least 81% and is based on the combination of actual collection rates achieved to date, and is the estimated outcome for the current financial period. The intervention of council to collection arrear debtors and to build a culture of payments in all municipal wards is expected to improve the payment factor by even a larger margin than currently projected.

The credit control measure of service disconnection is being applied on consumers whose electricity is supplied by the municipality. A programme of water restrictors has been initiated in the current year for consumers in areas where the municipality does not supply electricity. By large, these are areas from which a substantial and long overdue debtors of the municipality is being owed. The water restrictor programme is expected to improve the collection of outstanding debtors, and to build a culture of payment. It will also assist the municipality to clean-up its indigent register by identifying those consumers who can and those who cannot afford to pay.

DEBTORS

Based on the current payment rate and the water restrictor programme, the municipality is expecting to collect at least R3.5 million per month of its outstanding debtors. This is based on the current performance and collections in the current year. This funding will assist the municipality build reserves for the purpose of funding the internally funded capital projects.

2.7 GRANT ALLOCATIONS AND PROGRAMMES

Municipalities play a critical role in furthering government's objective of providing services to all, while facilitating local economic development. Local government conditional grants are being reformed to provide targeted support to different types of municipalities.

The following projected grants allocations to the municipality in terms of the 2017 Division of Revenue Act have been included in the medium term budget.

National allocations

Grant Description	2017/18 Budget R'000	2018/19 Budget R'000	2019/20 Budget R'000
Equitable Share	318 176	341 372	362 646
Finance Management Grant	1 700	1 700	1 700
Neighbourhood Development Partnership	50 000	25 000	25 000
Municipal Infrastructure Grant	114 604	121 398	128 568
Integrated National Electrification	9 000	10 000	20 000
Municipal Water Infrastructure Grant	45 000	55 000	60 000
Expanded Public Works Programme Incentive	4 166	0	0
Total National Allocations	542 646 000	554 470 000	597 914 000

Provincial allocations

Grant Description	2015/16 Budget R'000	2016/17 Budget R'000	2017/18 Budget R'000
Recapitalisation of Community Libraries	5 923	6 234	6 546
Accredited Municipalities	8 761	8 761	8 671
Museums Services	350	368	386
Community Library Services Grant	11 564	591	606
Total Provincial Allocations	26 598	15 954	16 209

2.8 ALLOCATIONS AND GRANTS MADE BY NEWCASTLE MUNICIPALITY

No grants will be paid by the municipality to other organs during the medium-term budget.

Please refer to SA 21 of Schedule A.

2.9 COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Please refer to SA22 and SA24 of Schedule A

2.10 MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOWS (Table 15a)

Please refer to SA25 to SA30 of Schedule A

2.11 ANNUAL BUDGET AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN – INTERNAL DEPARTMENTS

The SDBIP will be submitted separately.

2.12 ANNUAL BUDGET AND SERVICE DELIVERY AGREEMENTS – MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISMS

Municipal Entities

The agreement is currently in force in the following brief details:

- (a) Name of Entity : Uthukela Water (Pty) Ltd
- (b) Period of agreement : 30 years
- (c) Service provided : Water and sanitation
- (d) Expiry date : 24 May 2034

The Entity is currently under Provincial Administration and being investigated in terms of section 78 of the Municipal Systems Management Act, 32 of 2000.

Other Agreements

The agreement for debt collection service exists as follows:

- (a) Name of Entity : New Integrated Credit Solutions (Pty) Ltd
- (b) Period of agreement : 3 years
- (c) Service provided : Credit Control and Debt Collection
- (d) Expiry date : 30 April 2018

2.13 CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

In terms of the municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework unless section 33 of the MFMA has been complied with.

In ensuring adherence to this time frame limitations, all reports submitted to either Bid Evaluation or Bid Adjudication Committees must obtain financial comments from the Budget and Treasury Office.

2.14 CAPITAL EXPENDITURE DETAILS

Please refer to A5 of Schedule A

2.15 LEGISLATION COMPLIANCE STATUS

DISCLOSURE ON IMPLEMENTATION OF MFMA AND OTHER LEGISLATION

Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:

BUDGET AND TREASURY OFFICE

The Budget and Treasury Office has been established in accordance with the MFMA.

BUDGET

This draft annual budget has been crafted taking into account MFMA, Municipal Budget and Reporting Regulations, and National Treasury circulars into account. Budgets are being tabled, adopted and submitted to National and Provincial Treasuries within the required legislative frameworks.

IN-YEAR MONITORING

100% compliance with regards to monthly, quarterly, mid-year and annual reports to Council, Provincial and National Treasuries.

IDP

The 2017/18 to 2022/23 Budget Process for the new term of council has been done and aligned with the Budget in accordance with the MFMA and the Municipal Systems Act requirements.

ANNUAL REPORT

The 2015/16 Annual Report has been developed taking into account the MFMA and National Treasury requirements. The report was noted by Council at its meeting held on 25 January 2017 and entered the public participation phase for comments immediately thereafter.

AUDIT COMMITTEE

The audit Committee, an independent external committee, provides an oversight function over the financial management and performance of the municipality.

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

The committee ensures that the administration and municipal entity are held accountable for their management of municipal funds and assets, and to ensure the efficient and effective utilisation of council resources.

MUNICIPAL STANDARD CHART OF ACCOUNTS

As all municipalities are required by National Treasury to be fully mSCOA compliant as of 01 July 2017, the municipality 90% ready to comply with this requirement. The following is the progress on the implementation of mSCOA thus far:

- The mSCOA champion has been appointed
- Steering committee has been established
- Implementation Plan developed
- Proof of concept has been presented to NT
- Data clean-up issues has been identified and resolved
- Changes to chart are attended to on an on-going basis
- System are currently in the process of being integrated
- The municipality went live on 01 July 2016, but still cleaning up as per developments
- Projects has been identified and linked in terms of the IDP and the budget.
- The municipality will be fully compliant with mSCOA by 01 July 2017

2.16. ANNUAL BUDGET OF MUNICIPAL ENTITY ATTACHED TO THE MUNICIPALITY'S ANNUAL BUDGET

The budget of the Entity Uthukela Water has not yet been received for Council consideration. A provision of R66.7 million has however been made in the annual budget.

21. DETAILED OPERATING AND CAPITAL BUDGET
